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MARKET SEGMENT REPORT

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Restaurant Business

A BILL PUBLICATION

NOVEMBER 1, 1986

FOOD TRENDS: MENUS FOR THE '80S

FUN FOODS; ETHNIC FLAVORS; FRESH INGREDIENTS

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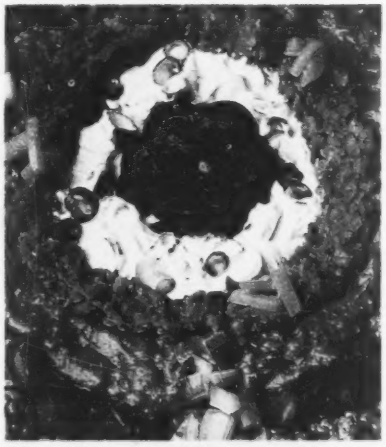

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161 **New Food Trends.** *Menus are more diversified than ever and reflect major trends driven largely by the demands of more sophisticated customers. Major menu trends include: healthy and lighter dining; a proliferation of appetizers and other foods meant to tap the grazing phenomenon; the "regionalization" of American cooking and a return to homemade and nostalgic American foods; the acceptance of exotic ingredients and foods, including ethnic cuisines; and the increased awareness of quality and freshness in restaurant food.*

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113 **Spectrum.** RB's *exclusive market research tool.*

121 **White Castle.** *Famous for its little square hamburgers—referred to fondly as sliders—the 65-year-old, regional chain sold 447,003,182 of them in 1985, with average annual unit sales of $1.3 million.*

174 **Marriott.** *Two years ago, Marriott Corp. started sending teams of its executive chefs to observe in the three-star kitchens of Le Moulin de Mougins in France. The program is a unique learning experience, as* RB*'s Joan Lang found out first hand.*

186 **Max's.** *While many restaurateurs make reputations by translating California cuisine, Dennis Berkowitz is busy bringing a taste of New York to California, with six New York-style delis.*

192 **Gill's Grill.** *Boston restaurant mini-mogul Michael Gillen recently opened his fourth restaurant in Westboro, west of Boston. Gill's Grill restaurant will ring up sales of $10 million this year.*

197 **Market Segment Report: Mexican.** *Although still showing above-average growth, the heady days of rapid chain expansion have passed. Independents, however, are flourishing.*

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COVER PHOTOGRAPH BY IRVIN BLITZ, FOOD STYLING BY POLLY TALBOTT

RESTAURANT BUSINESS SPECTRUM

By using this chart, operators can see where they fit in the industry and compare their size and performance to their peers.

By Malcolm Knapp

The restaurant industry is a diverse and confusing place. In an effort to illuminate the different segments of this fascinating business, *Restaurant Business* first commissioned SPECTRUM 10 years ago. Its purpose is to provide a simple conceptual tool to describe a restaurant so that a person who had never seen the restaurant in question would understand what you were describing.

Existing criteria for such description are often inadequate. The basic government census definitions like "refreshment place" or "restaurant & lunchroom" just do not do the conceptual job.

This year, *Restaurant Business* magazine decided to update the SPECTRUM both from the numerical side and the categorization side for the year 1985. The data is equivalent to eating places in the annual Restaurant Growth Index (RGI, September 20, 1986 issue).

LOGISTICS. How does the SPECTRUM work? The general thesis is that any restaurant can be categorized by analyzing three variables: TYPE OF SERVICE, PRICE, and MENU.

Imagine each variable as having its own separate line and marking the position of the restaurant being described on each line. The TYPE OF SERVICE line starts at primarily delivery and moves to primarily take-out to snack stand to self service to full service to continental service.

The PRICE line starts at under $2.00 and slowly moves up to $35.00 and over. The MENU line starts at limited

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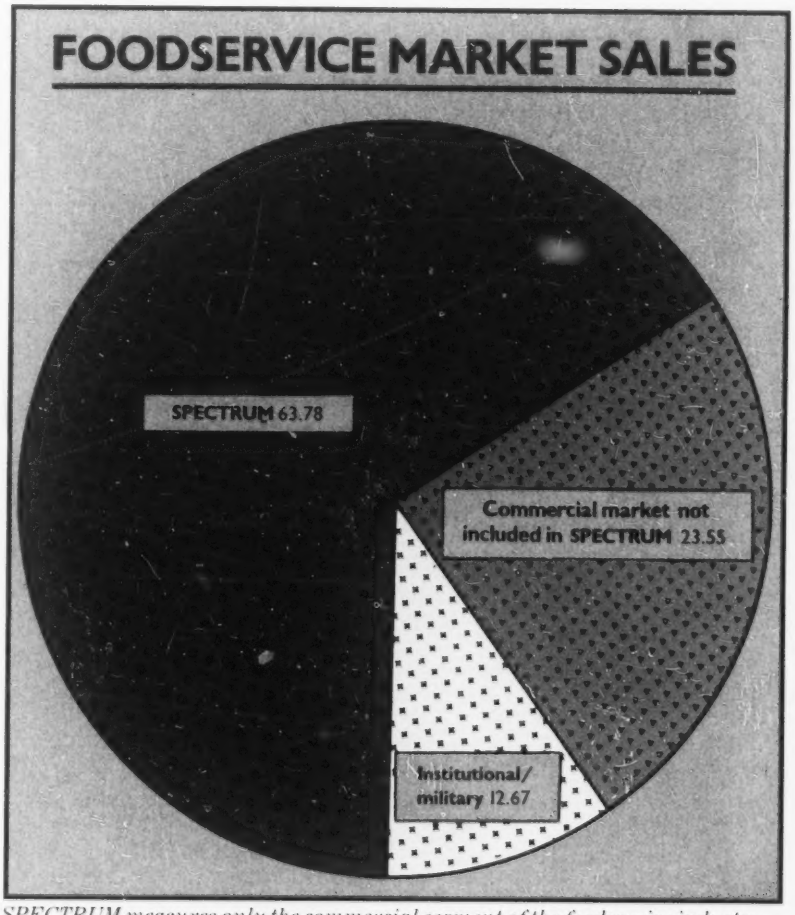

SPECTRUM measures only the commercial segment of the foodservice industry. In 1985, the year for which SPECTRUM is computed, this part accounted for 63.78 percent of the total market. The total foodservice market in 1985 was $174.2 billion, of which SPECTRUM accounts for $111.1 billion.

DESCRIPTIONS OF THE CATEGORIES WHICH

DOLLAR RANGE PER PERSON				UNDER $2	$2-$4
DOLLAR RANGE DESCRIPTION				LOW PRICE	LOW PRICE
MENU DESCRIPTION				LIMITED	LIMITED MENU
SERVICE DESCRIPTION				PRIMARILY TAKE-OUT/ DELIVERY	SNACK STAND	SELF SERVICE
RESTAURANT EXAMPLES				DOMINO'S PIZZA KFC	ORANGE JULIUS BASKIN ROBINS	McDONALD'S LONG JOHN SILVER'S
1985	TOTAL EATING PLACE SALES			1	2	3
SALES ($000)	111,130,863			7,576,670	2,211,550	36,258,226
% SALES	100.00%			6.82%	1.99%	32.63%
NUMBER OF UNITS	265,053			27,652	13,356	86,627
% UNITS	100.00%			10.43%	5.04%	32.68%
FOOD SALES ($000)	101,606,441			7,576,670	2,172,990	35,584,691
TAKE-OUT/DRIVE-THRU FOOD SALES($000)	23,429,327			6,932,653	973,304	12,514,629
UNITS WITH TAKE-OUT/DRIVE-THRU	146,506			27,652	13,356	59,665
ALCOHOL SALES ($000)	9,524,422				38,560	673,535
ALCOHOL UNITS	86,586				2,025	19,903
UNIT SIZE		% OF TOTAL UNITS	% OF TOTAL SALES			
UNDER $100,000						
SALES ($000)	3,068,908			392,618	245,299	974,868
% SALES	100.00%		2.76	12.79%	7.99%	31.77%
UNITS	57,182			7,377	4,609	18,317
% UNITS	100.00%	21.57		12.90%	8.06%	32.03%
$100,000-$249,999						
SALES ($000)	12,120,974			1,247,844	1,069,849	4,006,658
% SALES	100.00%		10.91	10.29%	8.83%	33.06%
UNITS	73,459			7,561	6,459	24,162
% UNITS	100.00%	27.72		10.29%	8.79%	32.89%
$250,000-$499,999						
SALES ($000)	21,312,346			3,170,090	729,615	5,990,560
% SALES	100.00%		19.18	14.87%	3.42%	28.11%
UNITS	59,738			8,907	2,050	16,834
% UNITS	100.00%	22.54		14.91%	3.43%	28.18%
$500,000-$999,999						
SALES ($000)	33,180,570			2,573,565	166,787	11,931,482
% SALES	100.00%		29.86	7.76%	0.50%	35.96%
UNITS	47,814			3,672	238	17,243
% UNITS	100.00%	18.04		7.68%	0.50%	36.06%
$1,000,000-$2,499,999						
SALES ($000)	34,162,629			160,925		12,616,042
% SALES	100.00%		30.74	0.47%		36.93%
UNITS	24,679			125		9,859
% UNITS	100.00%	9.31		0.51%		39.95%
$2,500,000 +						
SALES ($000)	7,285,436			31,628		738,616
% SALES	100.00%		6.55	0.43%		10.14%
UNITS	2,181			10		212
% UNITS	100.00%	0.82		0.46%		9.72%
		100.00%	100.00%			

SOURCE: MALCOLM M. KNAPP/RB RESEARCH

MAKE UP RESTAURANT BUSINESS SPECTRUM 1985

$4.50-$6.75	$3-$5	$3.50-$6	$6-$9	$9-$15	$15-$35	$35	
LOW-MODERATE PRICE	LOW-MODERATE PRICE	LOW-MODERATE PRICE	MODERATE PRICE	MODERATE-HIGH PRICE	HIGH PRICE	VERY HIGH PRICE	
VARIED MENU	FULL MENU	VARIED MENU	VARIED MENU	VARIED MENU	FULL MENU	LUXURY MENU	
SELF SERVICE	SELF SERVICE	SERVICE	SERVICE	SERVICE	SERVICE	CONTINENTAL SERVICE	SOCIAL CATERER
PONDEROSA GRANDY'S	MORRISON'S (CAFETERIA)	DENNY'S PIZZA HUT	T.G.I. FRIDAY'S CHI-CHI'S	RED LOBSTER STEAK & ALE	COMMANDER'S PALACE TRADER VIC'S	THE FOUR SEASONS LE FRANCAIS	
4	5	6	7	8	9	10	11
2,065,251	3,273,444	28,175,506	8,972,363	12,917,946	6,315,230	2,063,077	1,301,600
1.86%	2.95%	25.35%	8.07%	11.62%	5.68%	1.86%	1.17%
2,448	6,089	85,651	13,804	17,100	7,478	1,254	3,594
0.92%	2.30%	32.32%	5.21%	6.45%	2.82%	0.47%	1.36%
2,029,572	3,198,809	26,494,583	7,133,029	10,159,480	4,648,010	1,417,643	1,190,964
135,656	169,924	1,973,305	83,957	187,378			458,521
694	1,995	37,851	1,104	2,120			2,069
35,679	74,635	1,680,923	1,839,334	2,758,466	1,667,220	645,434	110,636
333	764	25,725	11,733	16,245	7,104	1,226	1,528
	95,952	1,302,338					57,833
	3.13%	42.44%					1.88%
	1,912	23,891					1,076
	3.35%	41.78%					1.88%
	188,894	4,962,934	502,423				142,372
	1.56%	40.95%	4.14%				1.17%
	1,246	30,118	3,049				864
	1.70%	41.00%	4.15%				1.18%
164,548	268,621	5,648,988	1,264,154	2,769,764	1,057,396		248,610
0.77%	1.26%	26.51%	5.93%	13.00%	4.96%		1.17%
460	767	15,792	3,534	7,743	2,956		695
0.77%	1.28%	26.44%	5.92%	12.96%	4.95%		1.16%
1,215,287	663,688	7,313,746	3,468,317	3,941,555	1,668,896	129,128	108,119
3.66%	2.00%	22.04%	10.45%	11.88%	5.03%	0.39%	0.33%
1,515	919	10,478	4,969	5,647	2,391	185	557
3.17%	1.92%	21.92%	10.39%	11.81%	5.00%	0.39%	1.16%
685,416	1,744,671	6,961,350	2,885,458	4,674,732	2,688,261	1,270,181	475,593
2.01%	5.10%	20.38%	8.45%	13.68%	7.87%	3.72%	1.39%
473	1,149	4,801	1,990	3,224	1,854	876	328
1.92%	4.66%	19.45%	8.06%	13.06%	7.51%	3.55%	1.33%
	311,618	1,986,150	852,011	1,531,895	900,677	663,768	269,073
	4.28%	27.26%	11.70%	21.03%	12.36%	9.11%	3.69%
	96	571	262	486	277	193	74
	4.40%	26.19%	12.01%	22.28%	12.70%	8.85%	3.39%

SPECTRUM measures eating place sales as defined by the Federal government. Although it does not include certain segments of the business, it provides an accurate view of the majority of the restaurant industry.

SPECTRUM *from p. 114.*
and works its way to varied to full to luxury. You can readily see that using the "lines" provides an exceptionally detailed calibration of where a restaurant stands with respect to the three variables.

Although precise with respect to a given restaurant, this approach when doing comparative analysis is too fine, so categories have been developed which incorporate the three variables. There are 11 larger groupings or categories into which all restaurants fall.

To further make recognition of a grouping easier, we have provided examples of well-known chains or individual restaurants which function as the pure type within a category.

Each category has a service description. Although social caterer is not a service description as such and can be broken down into many types of service within the category, it is a stand-alone grouping and is a self-contained category within the "Census of Retail Trade."

Thus it stands as the eleventh category. We have not provided a firm name as they tend to be known only locally. There is also more social catering business than is shown in the categories sales figures as many restaurants and contract feeders provide the service.

MENU DESCRIPTIONS. The menu description as limited refers to the number of items that are basically different. Varied menu has a number of different types of food. Full menu means a complete assortment of offerings.

Luxury menu means not only variety but unique offerings which can only be made by highly trained and skilled chefs.

The dollar range description and price is how the market breaks today. The price variable is the one with the greatest variation in terms of change over time. The menu is the variable with the second highest change rate with service being the slowest to change in the past 10 years.

CENSUS OF RETAIL TRADE. Where do the categories fit in terms of the Census of Retail Trade? Categories one to four fit into the refreshment place/limited menu restaurant plus ice cream and frozen custard stands. Category five is the cafeteria category of the Census. Categories six-10 fit into the restaurant and lunch counter group of the Census. Social caterer, group 11, is the same in the Census.

The important point here is that when the categorization takes place at a finer level, the monolithic entities are not as big. The McDonald's group represents 32.63 percent of sales versus the Denny's and Pizza Hut group's 25.35 percent. This is not as large a spread as advertising impressions would indicate.

To facilitate comparisons, we have percented most of the data in the chart. Moving down and across, the first data set is sales and percent of sales with the total market equaling 100 percent and $111,130,863,000.

The next set is units with the total units (those with payroll only) equaling 100 percent and 265,053. This is followed by food sales which is a sub-set of total sales. Take-out/drive-thru/delivered is a sub-set of food sales. We then show the number of units with this service. Next is the alcohol beverage set. Alcohol beverages and food add up to total sales.

We then show for each category in the SPECTRUM, a sales size distribution in dollars and units. The percents refer to the sales size category as the base, or 100 percent. For example, category one, "Primarily take-out/delivery" accounts for 6.82 percent of total sales but 12.79 percent of the sales of all units doing under $100,000 per year sales volume. Each sales size class is either the current Census size class or a sum of several groups.

HOW TO USE IT. There are four primary uses of the SPECTRUM for restaurateurs.

- Who am I and who is my competition? Where does my restaurant fit and who are my competitors by daypart? Category six woke up one day and found category three taking away breakfast business from them. Recognizing this requires an analysis of the characteristics that customers want from the new competition. In the case of breakfast, it was speed and money. Breakfast bars enable group six to compete with group three on speed and win on variety.
- What is my share of market either nationally or in a store trading area? To do a store trading area just list all the other restaurants in the area, categorize them and make reasonable dollar sales estimates. This will provide the total sales in your trade area as well as your category.
- Doing the analysis just mentioned will provide a saturation for your category in a trade area vs. national.
- Are there categories in my trading area or city that are underdeveloped and represent an expansion opportunity?

All these questions—and others—can be answered by using the SPECTRUM.

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THE NEW TAX LAW: WHAT IT MEANS FOR YOU

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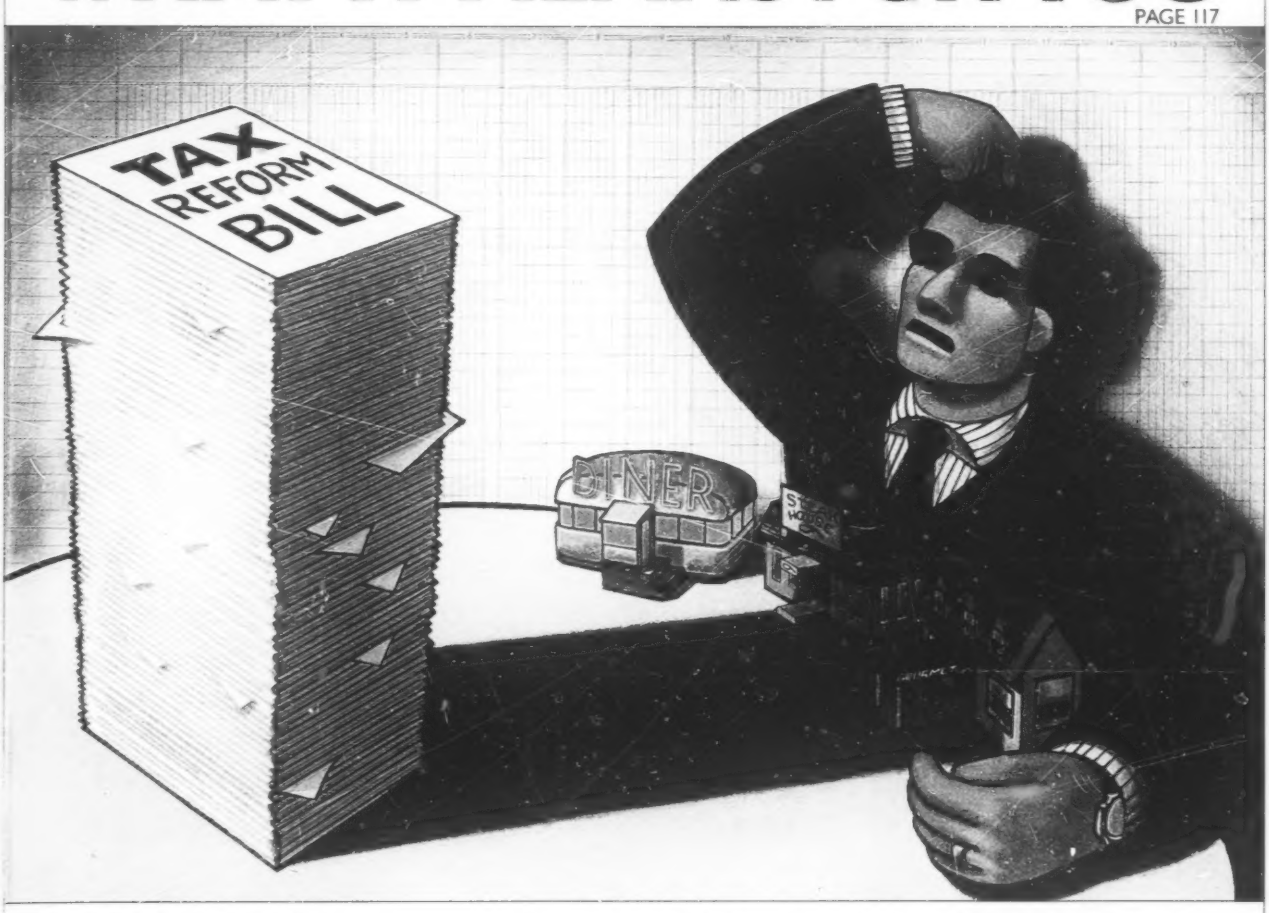

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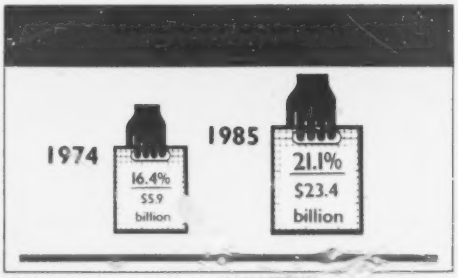
BUSINESS BAROMETER

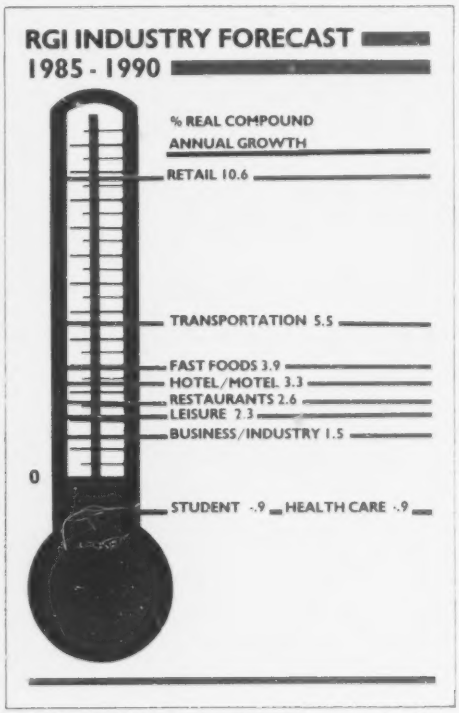
The Hard Facts Shaping Our Industry



SOURCE: RESTAURANT BUSINESS SPECTRUM

Off-Premise Business Booms

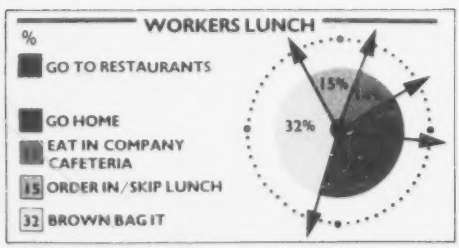
Take-out/drive-thru/delivery market carved out 21.1% of 1985 eating place sales ($111.1 billion). This represents almost a five-point gain over its 16.4% share of the $36.2 billion eating place market in 1974.



SOURCE: RESTAURANT GROWTH INDEX

Winners & Losers for 1985-1990

Foodservice sales from retail stores should outstrip all industry segments in terms of real growth projected for 1985-1990, according to our 19th Annual Restaurant Growth Index. RGI is forecasting a 10.6% real compound annual growth rate for retail foodservice, largely fueled by increased foodservice sales in convenience and specialized retail stores. The transportation segment is expected to experience the next highest real growth rate of 5.5% over the next five years if Americans continue their quickening pace of travel. The number of personal and business trips over 100 miles by Americans rose 7% to 1.1 billion in 1985 over 1984.



SOURCE: ROPER, 1986

26% of U. S. Workers Lunch Out

Restaurants grab 26% of workers for lunch, according to Roper. The company cafeteria only attracts 14%. Surprisingly, 32% of U.S. workers still opt to brown bag it.

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Piece Meal: Chicken wings, page 155.

Cover Story

TAXES **THE NEW BILL.** *There is only one thing certain about the tax reform bill: It isn't simple; it is about 2,000 pages long and is cumbersome and confusing. Restaurateurs won't know the full impact for some time, and effects will vary greatly, depending on such variables as pace of expansion and financial structure. The tax bill's macroeconomic effect is the biggest imponderable* 117

Food and Beverage

DRAFTS, CARAFES & SPIRITS **LIQUEURS AND CORDIALS.** *A spoonful of liqueurs and cordials in desserts adds a sense of festivity, a dimension of mystique. Spirited desserts also maximize usage of your bar inventory as they raise the check average*....139

MENU IDEAS **SANDWICHES.** *This category has evolved way beyond peanut butter and jelly. In the RB Test Kitchen, food editor Maria Cianci has taken the basic concept of a filling between two slabs of bread from the traditional to imaginative concoctions* 147

PIECE MEAL **CHICKEN WINGS.** *Some 20 years ago, a combination of wings with hot sauce served with blue cheese dip and celery sticks—concocted in the Anchor Bar, in Buffalo, NY—put wings on the forefront of finger-food favorites, where they have remained ever since*....155

Features

TURNAROUND **BAY TOWER ROOM.** *This prestigious Boston restaurant, with a breathtaking view of the harbor, was losing money; but a new management team from Inncorp Ltd., a Needham, MA-based hotel management company, has begun to turn it around. Sales this year are expected to top $5.5 million, and the operation is expected to net $500,000 this year*....82

INDEPENDENT **A&R ENTERPRISES.** *Under this corporate umbrella, Rusty Harmsen is pulling in $9 million annually, operating an eclectic group of 11 restaurants in the Midwest. By year-end, A&R Enterprises will have added two more eateries, boosting revenues to $11 million* 92

FRANCHISING **THE PUSH TO DIVERSIFY.** *Franchising is not so simple anymore, as successful franchisors and franchisees get into additional concepts. Franchisors develop or acquire second concepts; franchisees license concepts from other companies, or develop concepts of their own and become franchisors as well. This complex situation has given rise to the strategy of "portfolio management."*....106

CONSTRUCTION **CHURCH'S FRIED CHICKEN.** *This San Antonio, TX-based fast food chain manufactures 70 percent of its stores through a wholly-owned subsidiary. These prefabricated units generally take a maximum of five weeks to build, as opposed to six months for a conventional building*....126

ETHNIC **MEXIGO INC.** *Entrepreneurs Barbara Lieu and Bruce Galloway founded this three-unit chain 11 months ago to cash in on take-out and delivery to the tune of $1.3 million in the first year*....160

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GUEST COLUMNIST

Insight into Market Statistics

BY RONALD N. PAUL, PRESIDENT, TECHNOMIC CONSULTANTS

Maybe everything we thought we knew about the chain restaurant market isn't true, and we need to start paying more attention to the smaller chains and independents.

For some time now, Technomic Consultants has been tracking the growth and evolution of the chain restaurant industry. We have been fortunate in being able to work closely with the International Foodservice Manufacturers Association (IFMA) in preparing an annual study of the chain restaurant market. One of the important statistics that this study generated is the share of the total restaurant market (Separate Eating Place segment as defined by the government) the top chains represent. The most noteworthy statistic that gets publicized is the share of the market captured by the top 100 restaurant companies. These restaurant companies, which include organizations like Pillsbury, Marriott, W.R. Grace, etc., operate some 200 chains and at the end of 1985 accounted for some 46 percent of the total restaurant market.

It seems important to point out that this overall statistic is misleading. Let me illustrate what we mean. The accompanying table shows the relative share of the total market in the categories for which we have data. We are not able to break out midscale and upscale restaurants as individual groups since there is no government data source for these segments. The government does provide a statistic on the size of the quick service restaurants, which are referred to as limited menu restaurants.

As the table shows, at year-end 1985, the share of total restaurant industry dollars accounted for by major chains was 46 percent through the operation of some 26 percent of the total units. It's important to note that the penetration was really 80 percent in quick service restaurants and only 23 percent for the balance of the industry.

In effect, it can be seen that the overall statistic overstates the importance of the major chains since their penetration in the midscale and upscale categories stands at less than 23 percent of the dollars and 10 percent of the units.

Perhaps we have been guilty of not "spreading the word" that yes, the chain market is in fact responsible for much of the growth but, as the statistics indicate, there is still a large small chain and independent midscale-upscale market that has not consolidated to the same degree as the quick service category has. Therefore, maybe everything we thought we knew about the chain restaurant market isn't true, and we need to spend more time paying attention to the smaller chains and independents.

On occasion, publisher Jeffrey Berlind invites industry executives and analysts to appear in this space to discuss topics of particular importance to our readers.

TOP 100 RESTAURANT COMPANIES

Top 100's Share of	Sales		Units	
	[illegible]	[illegible]	[illegible]	[illegible]
Quick Service Restaurants	67.4%	80.1%	37.7%	45.2%
Midscale & Upscale Restaurants	17.7%	22.7%	6.2%	9.3%
All Separate Eating Places	35.9%	46.0%	18.3%	26.4%

Source: TECHNOMIC CONSULTANTS/IFMA Seller's Guide to Chain Restaurants.

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A BILL PUBLICATION DECEMBER 10, 1986

INDUSTRY LEADERS' FORECAST

CONSUMER TASTES; LABOR TRENDS; BUSINESS OUTLOOK

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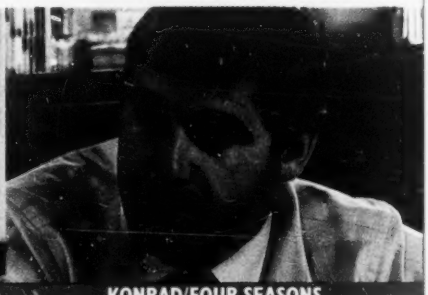
COHN/BIG FOUR



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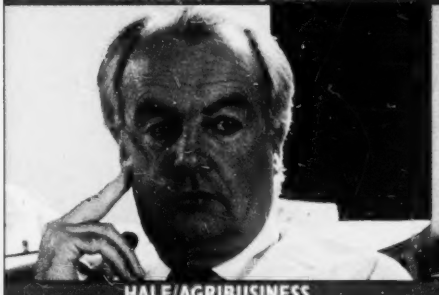
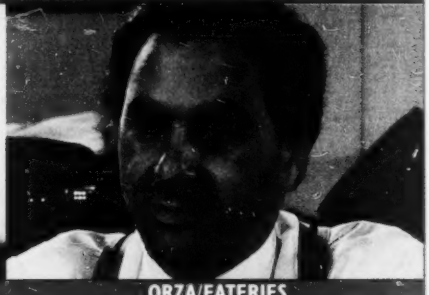


HALE/AGRIBUSINESS

PETERSON/WHATABURGER



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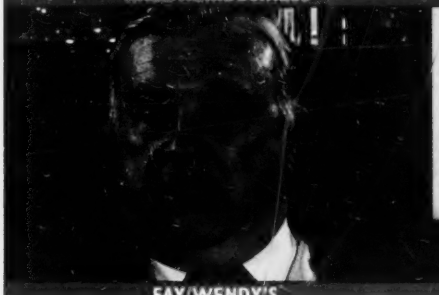

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GREGORY/T.F.S.D.

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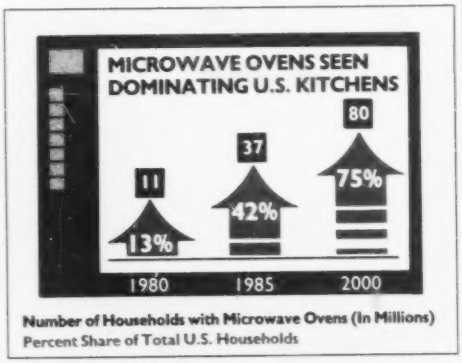
BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

Source: American Demographics Magazine

Childless Couples Big Spenders

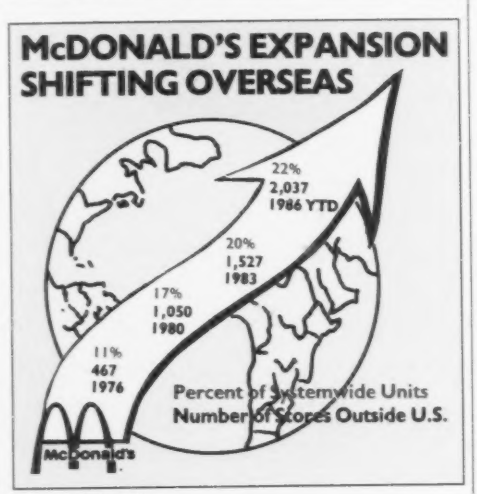
Restaurateurs might do well to cater to young childless married couples who, weekly, spent 46 percent more on eating out ($28.55) in 1982-83 than couples with kids under six ($19.49), says *American Demographics* magazine. Their numbers increased 15 percent from 5.2 million in 1980 to some 6 million in 1985, or 24% of all young married couples where the wife was aged 18-44.



Sources: Gallup Poll; Campbell Soup Co.

The Microwave-Age Restaurant

The choice is very clear. Time-pressed consumers in increasing numbers are buying microwave ovens to prepare meals at home. To meet the challenge, restaurants must develop meals-to-go packaged conveniently to attract today's time-conscious consumers who want microwaveable foods.



Source: McDonald's

Franchisors Set Sights Abroad

U.S. chains increasingly are targeting overseas markets to maintain growth rates. McDonald's is pacing the industry, with 2,037 foreign units, or 22% of total systemwide outlets. Contenders are KFC, with 1,773 units, and Pizza Hut, with 576. Some 30 smaller U.S. restaurant franchisors plan to join 67 larger U.S. firms now abroad by the end of 1987. Hot markets: Canada, Japan, Australia, UK, and Europe.**–Linda Cecere**

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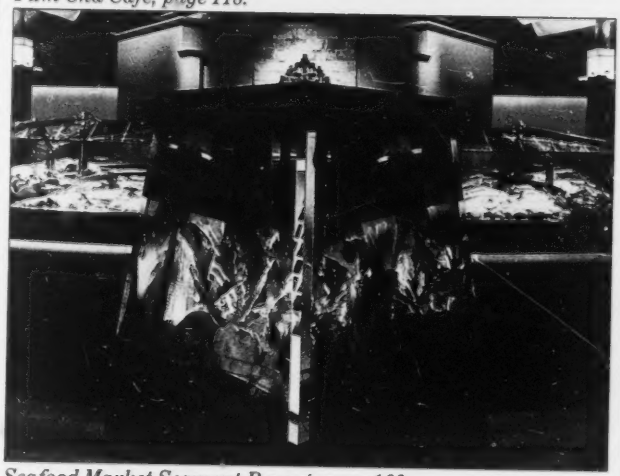

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TURNAROUND STRATEGIES

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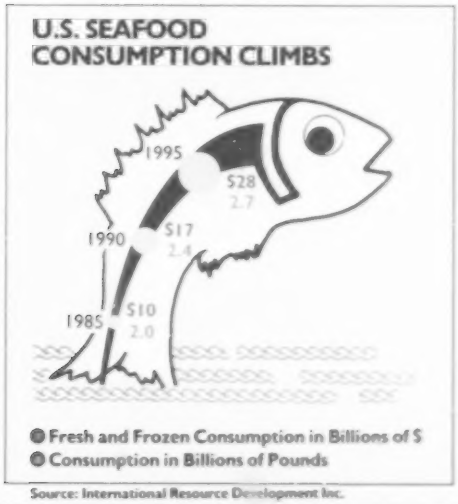
BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Linda Cecere



Source: International Resource Development Inc.

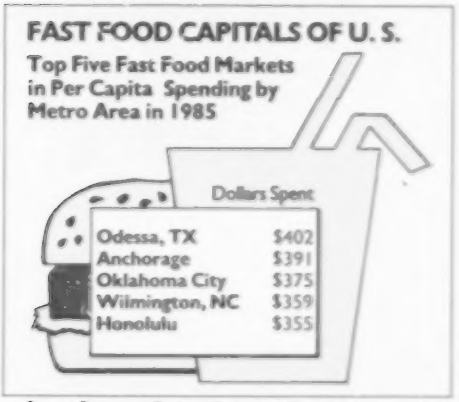
Seafood Sales Soar

The rise in U. S. consumption of fresh and frozen seafood should balloon to $28 billion in 1995 from 1985's $10 billion. Health conscious consumers, particularly baby boomers and working women, have been willing to pay premium prices for seafood away from home, where 60% of fresh and frozen fish was eaten in 1985. Overall fish market share: restaurants, 40%; fast food, 14%; at-home, 40%; and institutions, 6%.

Source: Laventhol & Horwath for National Restaurant Assn.

Is The Future Italian?

No wonder chains such as Jerrico, General Mills, and Imasco are adding Italian concepts to their restaurant mix. In 1985, Italian achieved highest sales per seat, $5,925, compared to the next highest menu concept, Mexican, at $5,354. Industry data show the Italian segment has between 3 and 4 times fewer units than Mexican.


FAST FOOD CAPITALS OF U. S.
Top Five Fast Food Markets in Per Capita Spending by Metro Area in 1985
Dollars Spent
Odessa, TX $402
Anchorage $391
Oklahoma City $375
Wilmington, NC $359
Honolulu $355

Source: *Restaurant Business'* Restaurant Growth Index

Work Hard, Eat Fast

What makes folks in Odessa, TX, eat more fast food than people in other towns? Answer: the city never sleeps. Its blue collar job force works 24-hour days and the city is a major shopping hub. Other top metropolitan areas have similar hard-driving work forces and hungry shoppers; also college students and tourists.

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TURNAROUND STRATEGIES. *This year RB profiles two chains that are at a critical turning point: Cucos of Lafayette, LA, and Naugles, a division of Los Angeles-based Collins Foods International, Inc. Both are trying to rectify problems and emerge from their troubles as stronger and more resilient players in the chain restaurant market. And, while neither is yet completely out of the woods, both appear to be making significant strides toward recovery*.....109

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DRAFTS, CARAFES & SPIRITS SINGLE MALT SCOTCH. *Over the past few years as Americans have broadened their food and beverage sophistication, single malts have become a growing segment in a somewhat depressed spirits industry. Distillers and restaurant operators are promoting aged malts as super-premium specialties, and this category has high profit potential for on-premise sales*.....147

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MULTI-UNIT OPERATOR HAMBURGER HARRY'S. *Burger devotees in New York City know where to go for seven-ounce "designer" hamburgers grilled over applewood and mesquite charcoal and topped with just about anything, including caviar. With quick service and high-quality food in a trendy but casual setting, owner Marvin Paige, founder of the two-unit, $2.5 million chain, says his units are in a unique niche of their own*.....120

MARKET SEGMENT REPORT CHICKEN. *The good news is that chicken consumption is up, but increased demand has also forced prices up, cutting into profits. And, the chicken chains are being hurt by the proliferation of chicken products, nuggets, and strips introduced by other fast food competition*.....125

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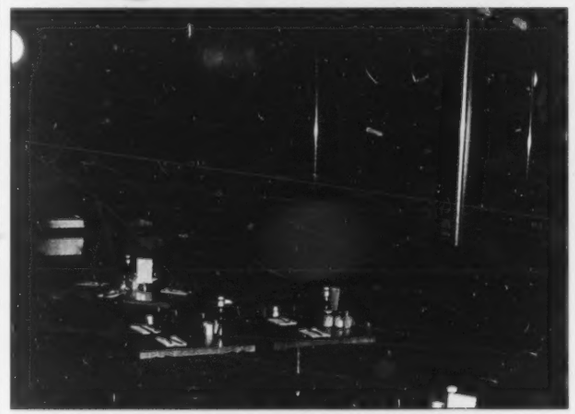

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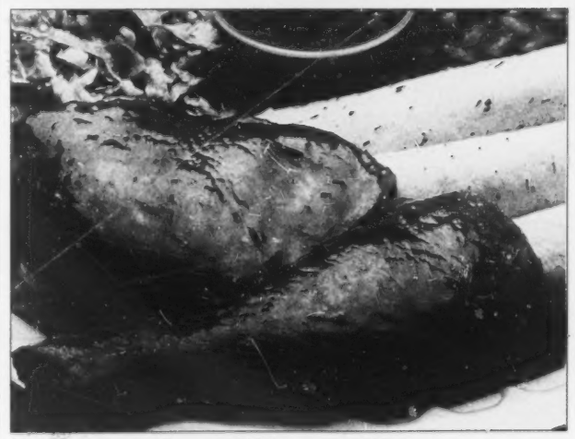

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JOINT CONCEPTS

WHY CHAINS ARE JOINING FORCES

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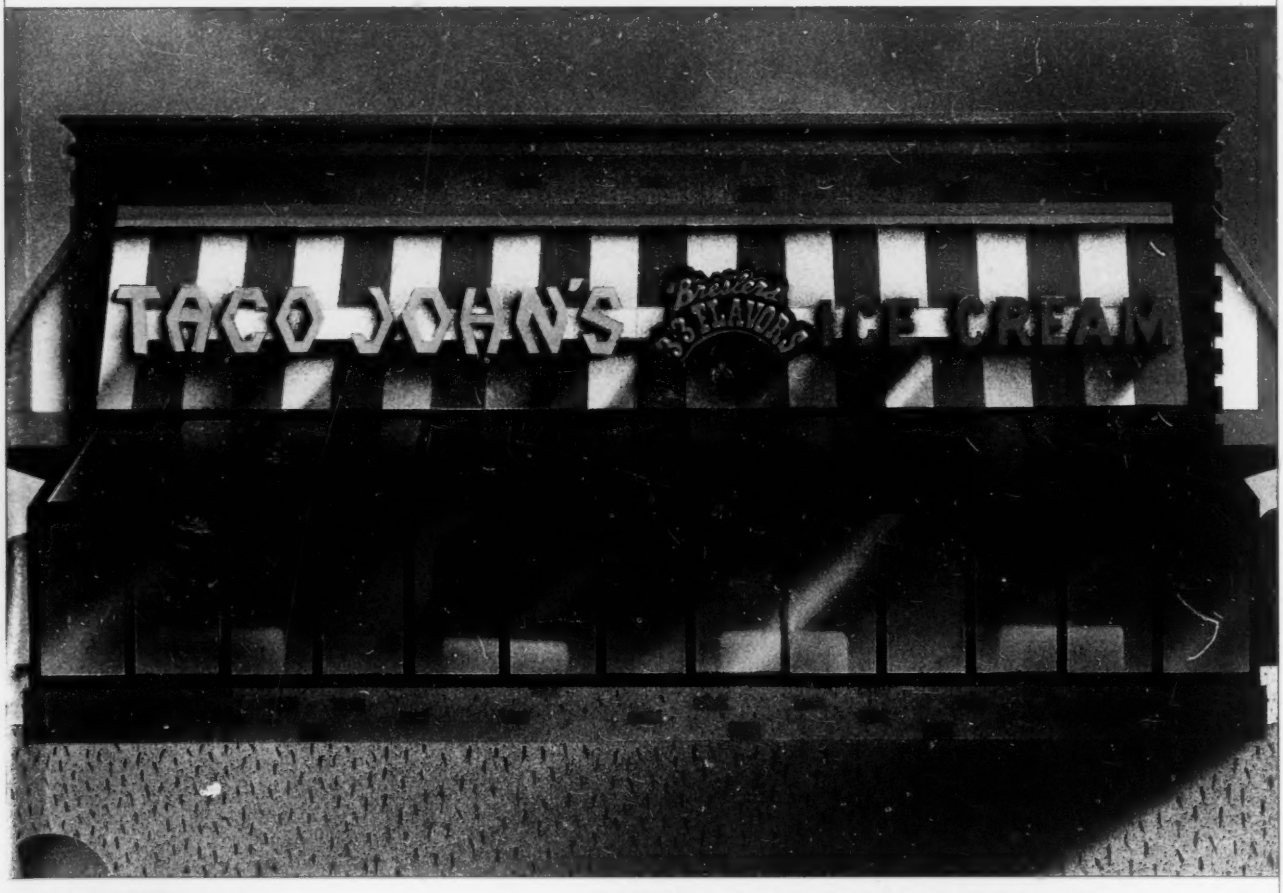

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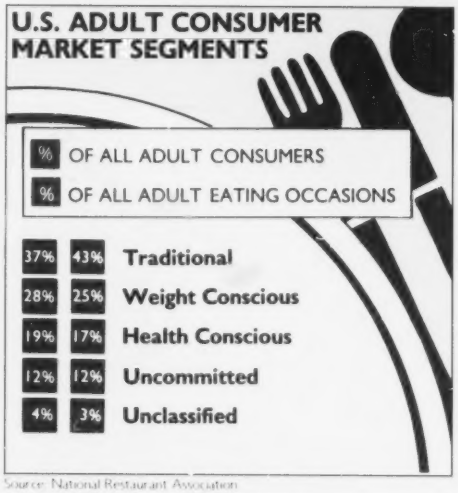
BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

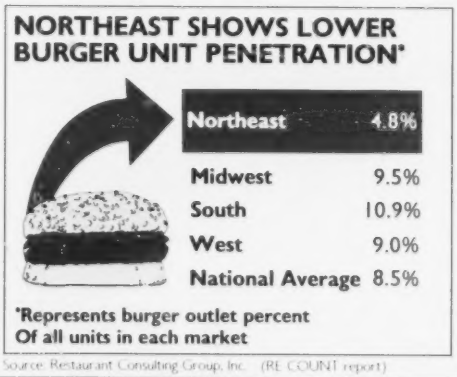
By Linda Cecere


U.S. ADULT CONSUMER MARKET SEGMENTS
% OF ALL ADULT CONSUMERS
% OF ALL ADULT EATING OCCASIONS
37% 43% Traditional
28% 25% Weight Conscious
19% 17% Health Conscious
12% 12% Uncommitted
4% 3% Unclassified

Source: National Restaurant Association

Hearty Eaters Rank First

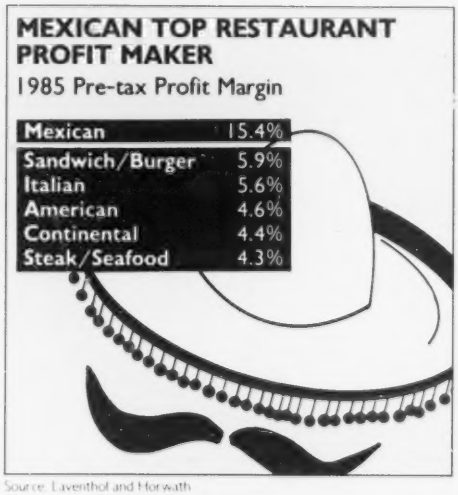
Despite all efforts to appeal to health and diet conscious consumers, traditional diners still remain the primary target of restaurant operators. They account for the largest share of all restaurant eating occasions (43%). More than half label themselves "meat and potato" eaters; another two-thirds say they eat what they want when they want. Top choices: steak, roast beef, fried chicken, and fried fish.



Source: Restaurant Consulting Group, Inc. (RE COUNT report)

Is the Northeast Understored?

Hamburger chains looking for new markets for expansion should consider the New England/Middle Atlantic states of the Northeast. Burger outlets account for 4.8% of all restaurant concepts in the Northeast, well below their 8.5% average share of market for the country as a whole.



Source: Laventhol and Horwath

Mexican Lowest in Costs

Mexican is the most profitable menu concept, says industry data. The concept has highest pre-tax profits of 15.4%, as compared to the sandwich/burger segment, second highest profit maker at 5.9%. Not surprisingly, Mexican has lowest operations cost, with a 29.4% food cost (includes beverage) and a 26.6% labor cost (includes benefits). More importantly, Mexican also pockets top dollar profits per seat ($632).

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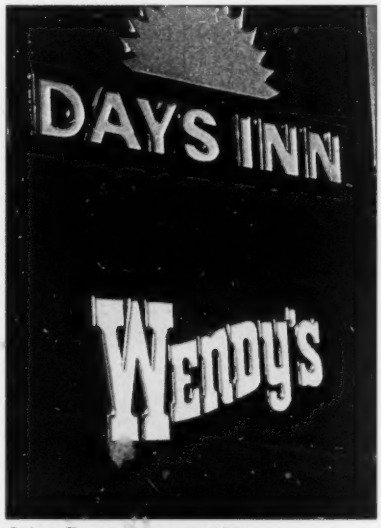

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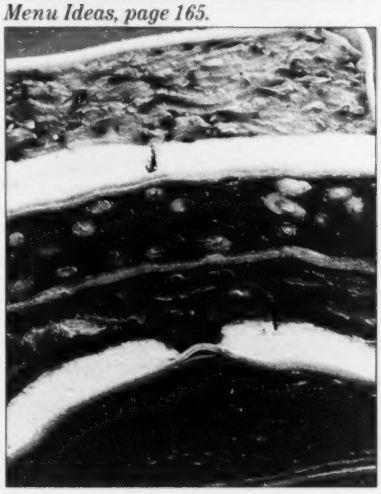

Chef's Art, page 173.

Cover Story

JOINT CONCEPTS **DONUT DAYS, ICE CREAM NIGHTS.** *Restaurant chains are getting involved in joint venture test projects all over America. The diversity is impressive: Dinner houses are pairing up with hotels, competing fast food concepts are joining forces under one roof, and nationally branded hamburgers, chicken, and pizza can all be purchased with the newspaper and a six-pack at c-stores* 107

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COVER ILLUSTRATION BY JIM LUDKE

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Restaurant Business

A BILL PUBLICATION

FEBRUARY 10, 1987

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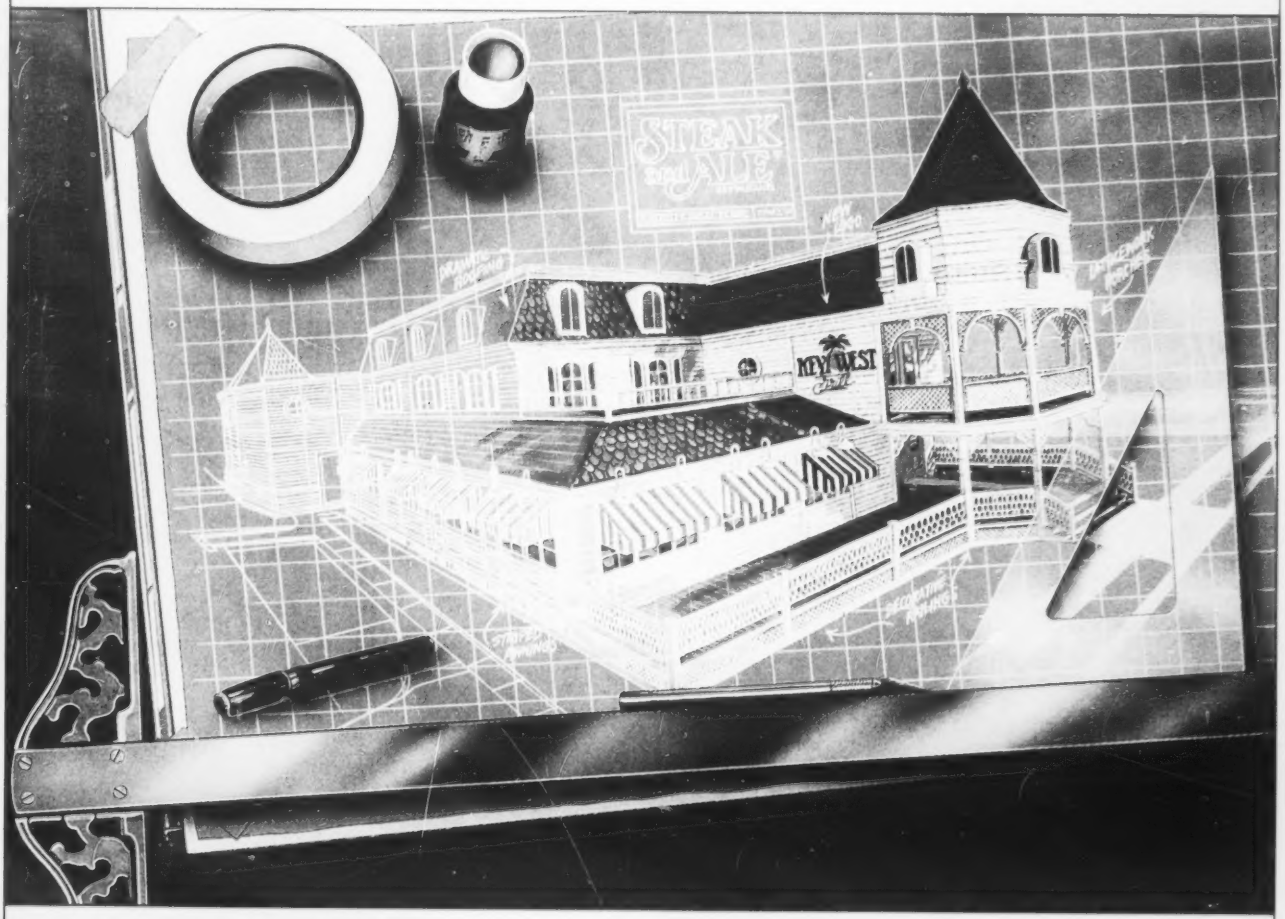

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BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Linda Cecere

NRA Predicts 1987 Sales

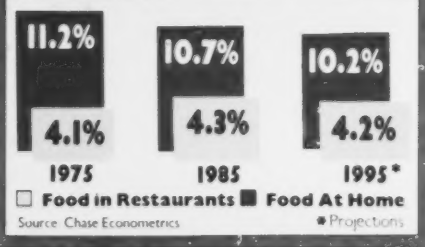
Healthy gains in population, employment and personal income are the reasons why nominal restaurant sales in the Mountain states of the U.S. should register the largest increase this year over last, at 8.2%, well above the 6.8% national average. The National Restaurant Association also predicts similarly good economic outlooks for the South Atlantic region, with a 7.6% increase; and the New England and West South Central regions, each pulling a 7.2% increase. The Mid-Atlantic section of the country will show smallest growth at 5.7% due to a less than robust economic climate.

PERCENT CHANGE IN THE REGIONAL ECONOMIES 1986-1987

Region	Population	Total Employment	Personal Income	% Change in Eating Place Sales
New England	1.2%	2.1%	3.9%	7.2%
Middle Atlantic	0.2	1.0	2.5	5.7
South Atlantic	1.5	2.3	4.4	7.6
East North Central	0.2	1.1	2.5	5.9
West North Central	0.3	1.2	3.0	6.0
East South Central	0.5	1.3	3.6	6.8
West South Central	1.1	2.0	4.3	7.2
Mountain	2.2	3.0	5.3	8.2
Pacific	1.6	2.5	4.1	6.9
Total U.S.	0.9	1.8	3.6	6.8

Source: National Planning Association, Regional Economic Projections Series, National Restaurant Association

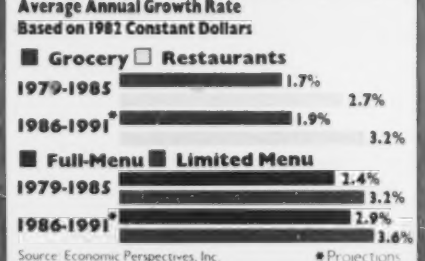
PERCENT OF DISPOSABLE PERSONAL INCOME CONSUMERS SPEND ON FOOD



Source: Chase Econometrics *Projections

GROCERY VS. RESTAURANT SALES

Average Annual Growth Rate Based on 1982 Constant Dollars



Source: Economic Perspectives, Inc. *Projections

DPI Rises; Restaurants Gain

U.S. Disposable Personal Income (DPI) will rise an average of 2.6% per year between 1985 and 1995, which will benefit restaurant sales, according to Chase Econometrics. American consumers will continue to maintain their eating out budgets at a virtually stable 4.2% through 1995. That's because of increasing numbers of single householders and dual earner families who eat out more often than traditional families. The loser will be grocery sales (food at home): consumers will spend only 10.2% of total DPI in 1995, compared to 11.2% share in 1975. Not surprisingly, a study by Economic Perspectives, Inc. forecasts total restaurant sales will increase at a 3.2% average annual growth rate, from $109 billion to $127 billion between 1986 and 1991, compared to 1.9% average annual growth for grocery sales. Full menu restaurants will experience 2.9% average annual growth, from $67 billion to $78 billion, and fast food operations will log 3.6% growth, from $42 billion to $49 billion.

CHARTS DESIGNED BY SHARI FANG

Restaurant Business

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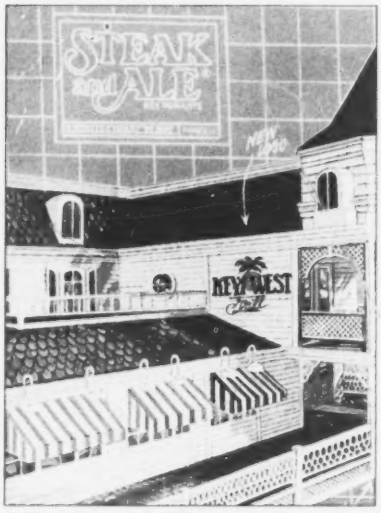

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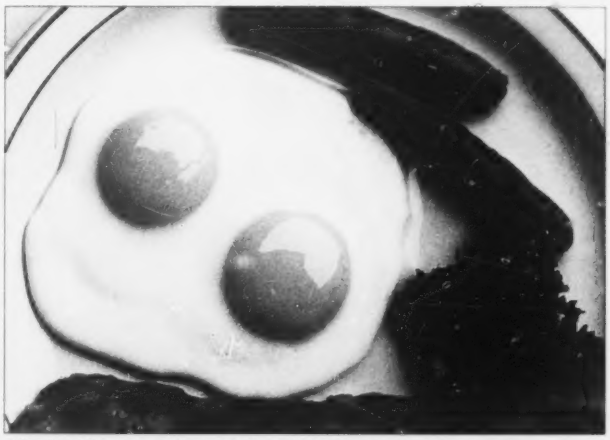

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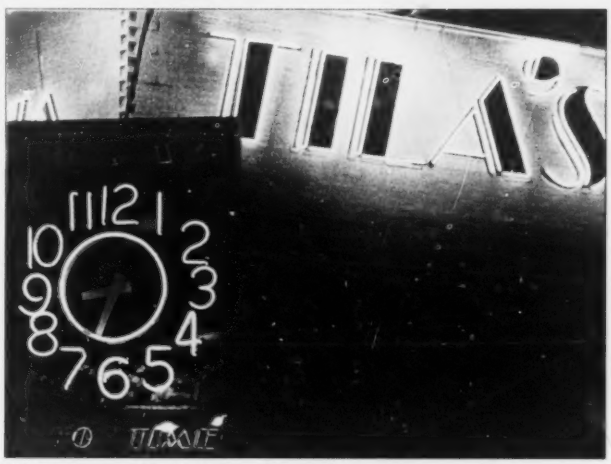

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MARKET SEGMENT REPORT

BREAKFAST

In recent years, statistics have shown breathtaking gains in breakfast sales and traffic. As a result, more and more foodservice operators have joined the breakfast fray, seeking to get a share of the market.

Breakfast has become an extremely competitive daypart, fueling changes in the overall foodservice market. For instance, in the last few years nearly every major fast food company has added breakfast, which squeezed the traditional coffee shop operators, forcing them to seek additional lunch and dinner customers.

Now an increasing number of upscale "breakfast-only" concepts are putting pressure on mid-scale family restaurant/coffee shop operations, and fast food operators are seeing breakfast trade level off. At the same time, convenience stores are aggressively mounting a campaign to get a share of the fast food dollar, especially at breakfast, and a number of bakery concepts are attempting to position themselves as a.m. destinations.

OPTIMISTIC. Yet, there is still cause for optimism on that front. The "business breakfast" is emerging, and is in part responsible for the growth of the new upscale breakfast houses.

"We feel that more and more businessmen are using breakfast time to conduct their business as a way of stretching the day," says Dorothy Dee, director of information for the National Restaurant Association, based in Washington, DC. "If I meet someone for breakfast, I know that I am not cutting into his day."

New statistics indicate that breakfast sales and customer counts are no longer increasing in 1986, sparking a

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IHOP's new breakfast special includes two eggs plus bacon and sausage.

IHOP derives more than 50 percent of its total sales from breakfast items.

MARKET SEGMENT REPORT

BREAKFAST

Mrs. Winner's stresses portability with its biscuit breakfast product, in a number of different guises.

Although some statistics suggest that growth in the breakfast market may have peaked, there is still plenty of demand.

BREAKFAST *from p. 167.*

controversy in the industry. Is the breakfast market still growing? Do breakfast customers still represent a source of new business?

HAS DEMAND PEAKED? "The breakfast market has peaked out this year; the supply of foodservice operations offering breakfast has finally caught up with the demand," says George Rice, president of Park Ridge, IL-based GDR/CREST Enterprises, Inc., a marketing and consulting firm. The company's CREST report tracks foodservice sales and traffic, and shows that breakfast sales and traffic increased not at all during at least two quarters in 1986. In 1985, the total breakfast market increased by 20 percent, according to CREST, compared to an eight percent total increase for the industry over 1984.

"Breakfast is still a vibrant daypart," Rice hastens to point out. "It's just that operators were able to take advantage of excess demand for breakfast, which has now been satisfied by the industry."

Some foodservice operators say that CREST data should be viewed with caution. "When I read that CREST indicated breakfast had peaked, I thought it was a joke," says Steve Pettise, vice president of marketing for North Hollywood, CA-based International House of Pancakes (IHOP), which operates some 450 units throughout the country. "When you've got a daypart that is attracting only 13 percent of the public, according to CREST data, you've got a lot of room to grow. Sales look as though they have peaked this year only because they increased so dramatically last year."

Like other operators, he points out that Wendy's introduced breakfast in 1985 and Burger King advertised breakfast heavily for the first time in 1985. Although Wendy's breakfast introduction wasn't considered successful, statistics showing traffic counts and sales reflected a surge simply because of the enormous numbers of Wendy's and Burger King units throughout the country.

Allen J. Bernstein, chairman of the board for Denver-based Le Peep Restaurants Inc., the country's largest upscale breakfast-only chain, agrees that there is still plenty of room for breakfast sales to grow. "We see our sales continuing to increase," he notes. "The reasons for the growth in the breakfast daypart continue to hold true: there are more working women, more divorced people, more time pressures, and less reason to eat breakfast at home. And people are finding that having a breakfast meeting is a good way to conduct business and an efficient use of time."

CREST statistics *do* hold out some hope to family/coffee shop restaurants, although, in recent years, fast food breakfast sales have grown partly at their expense. CREST says that in 1986 mid-scale restaurants held on to the same 49 percent share of breakfast sales they held in 1985. Quick-service restaurants continued to hold a 41 percent share of sales in 1986 (up from 37 percent in 1982), and upscale restaurants held a 10 percent share of sales.

"The world does not want to drink out of a Styrofoam cup and eat with a plastic fork every day," notes Alan Post, senior vice president of marketing for Minneapolis-based Country Kitchens International Inc., a subsidiary of Carlson Companies. "That's o.k. if you're in a hurry, but no fast

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MARKET SEGMENT REPORT

BREAKFAST

VICORP is continuing to pursue the mid-priced breakfast market with its skillet breakfast line.

BREAKFAST *from p. 168.*
food place is ever going to put someone out of business who is offering a good value at breakfast."

THE FAST FOOD FRONT. Breakfast continues to be a very important daypart for fast food operators, though there have been no major breakfast rollouts or new product introductions in the last 12 months. The most significant development recently continues to be the failure of Dublin, OH-based Wendy's International, Inc., to develop a distinctive breakfast program to compete with McDonald's, Burger King, and all the others.

Wendy's has made breakfast optional for franchised and company-owned stores, and one source says that 25 percent of company stores and as many as 40 percent of franchisees have dropped the existing breakfast program. The company is reportedly testing a new breakfast in its Columbus market, but declined to comment.

"Our policy is not to discuss test programs," says Paul Raab, the company's manager of corporate communications. "We are looking at our options in the breakfast arena. It is an essential daypart; we see a great deal of opportunity there, and we intend to pursue the opportunity."

The Wendy's breakfast debacle has had serious implications for the company, analysts say. The company rolled out breakfast during the summer of 1985, making a tardy entry and incurring heavy costs.

"A lot of franchisees lost money or came close to it by implementing Wendy's breakfast program, and they are less happy with the Wendy's chain than they used to be," notes Charles Glovsky, a vice president at Alex. Brown & Sons, Baltimore, which follows Wendy's stock. "I understand that a number of franchises are for sale."

He points out that part of the damage to the Wendy's system is attributable to the fact that Wendy's was concentrating on a breakfast rollout at the same time that McDonald's was bringing out its McD.L.T. and Burger King was introducing a reformulated Whopper. "At a time when Wendy's was focusing on a costly new daypart, the competition was hurting them during other dayparts," Glovsky says. "The effect was very serious, and profits have been hurt substantially."

Wendy's breakfast was not successful, says Glovsky, because it did not meet the needs of the customer who goes to a fast food restaurant for breakfast. The program was built around made-to-order omelets and French toast, neither of them very portable. Undeniably, portability is what customers usually seek from a fast food breakfast; they are in a hurry, and they frequently order through a drive-thru window and eat in the car. In addition, the omelets took about four min-

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MARKET SEGMENT REPORT

BREAKFAST

The mid-priced market is still getting the squeeze at breakfast from both the fast feeders and the new breed of breakfast-only concepts like Le Peep and Dozens.

BREAKFAST *from p. 170*

utes to prepare. "That just turned people off," Glovsky says.

BREAKFAST AS USUAL. Most other fast food operators have been pursuing breakfast as usual. Burger King has been experimenting with several portable items, including French toast sticks. Roy Rogers, a subsidiary of Washington, DC-based Marriott Corp., has completed rollout of a breakfast program in both Washington and Baltimore, and now serves breakfast in less than half of its 575 units.

Breakfast has proven to be very important to some of the upscale chicken fast food operators, which occupy a place between fast food and family restaurants. Typical is Lewisville, TX-based Grandy's, with 192 units. Grandy's offers pancakes, biscuits and gravy, baked-from-scratch cinnamon rolls, and scrambled egg platters in addition to biscuit sandwiches. On the average, 20 percent of a unit's sales derive from breakfast, says Bob Lee, vice president of marketing.

Grandy's differs a little from the typical fast food operation in that drive-thru sales are not extremely important at breakfast. "We're more of a place where people come in to enjoy breakfast," says Lee. "Our 'Grannies' pour coffee, and we have a nice atmosphere. People want a quick and convenient breakfast, which we combine with some ambience."

At 299-unit Bojangles Chicken & Biscuits, based in Charlotte, NC, breakfast accounts for more than 30 percent of sales, says Tony Monzo, executive vice president of marketing. Like Grandy's, Bojangles' breakfast is built around biscuits, but biscuit sandwiches are far more important than platters. At least 50 percent of total breakfast sales come from the drive-thru, says Monzo.

Brentwood, TN-based Mrs. Winner's Chicken & Biscuits, with 165 units in the Southeast operated by parent Winners Corp., also offers a breakfast menu consisting of biscuit sandwiches, breakfast platters, and Super Cinnamon Swirl bun, and almost the entire breakfast menu is designed to be portable. "We designed a menu that customers can eat while they are driving," says Pam Davis, marketing manager.

Breakfast is very important to Mrs. Winner's, with about 38 percent of sales deriving from the daypart. More than half of those sales come from the drive-thru window.

At Dublin, OH-based Sisters Chicken & Biscuits, a subsidiary of Wendy's International, breakfast is less important, accounting for only 10 to 15 percent of sales depending on the season. This company, too, sees portability as a key to breakfast success, and for that reason makes its biscuits out of buttermilk so they don't crumble as easily.

Aside from the burger and chicken chains, few other fast food operators have made inroads into the breakfast market. About two years ago Domino's tested a breakfast pizza delivered with a morning newspaper, but the idea fizzled.

In some areas breakfast burritos have met with success, and one San Antonio-based company, Taco Cabana Inc., derives some 25 percent of its sales from a Mexican breakfast. The mainstay at breakfast is the breakfast taco, filled with bacon and scrambled eggs, chorizo and eggs, sliced link sausage and eggs, diced potatoes and eggs, or refried beans and cheddar.

The company operates nine units in Texas, and at some of them breakfast is more popular than lunch, says Linn Moody, a co-owner. It's not uncommon for businesses to call up and order 150 breakfast tacos for meetings, he notes.

CONVENIENCE STORES. Breakfast is proving a particularly tempting target for convenience store operators, who increasingly are including breakfast sandwiches in their fast food arsenals in addition to their old standbys, coffee and donuts. Typical of the movement is Phoenix-based Circle K Corp., which last year added two new breakfast

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MARKET SEGMENT REPORT

BREAKFAST

Grandy's is marketing its made-from-scratch cinnamon rolls, among other items, as a better-than-fast food alternative.

The fast food breakfast scene appears to have stabilized, with no major new entrants or new products launched.

BREAKFAST *from p. 172.*
sandwiches at its 3,350 units.

"I think we're going to start to see the effect of convenience stores on the breakfast market in the next couple of years," says Bojangles' Monzo. "They have the distribution points, and they are willing to take smaller margins. I think that if there is going to be growth in the breakfast market, it will come from customers attracted to c-stores."

C-stores, however, lack the competitive advantage of the drive-thru window, points out Glovsky of Alex. Brown. "I don't want to diminish the competitive threat that c-stores pose, but the convenience factor may not be quite as great at a c-store as at a fast food outlet," he says.

THE BAKERY CONNECTION. The new bakeries that are proliferating throughout the country are positioned primarily as places to get a snack, but they could conceivably attract a substantial breakfast business. Kansas City-based T.J. Cinnamons Inc. is now offering continental breakfast service at its seven company-owned bakeries in Kansas City. The breakfast consists of a cinnamon roll, choice of coffee, tea or soft drink, and orange juice for $1.99, a savings of 41 cents over the individual components. The breakfast is available until 10:30 a.m.

Cinnamon Sam's, also based in Kansas City, is also targeting breakfast at its six units. "I think that McDonald's and Hardee's capitalized on breakfast, but bakeries didn't," says Jerrold Biddle, president. "We're saying, 'Hey! We have something to offer that those guys don't have.' We just reacted more slowly."

In addition to three sizes of cinnamon rolls, Cinnamon Sam's also offers a cinnamon "munch" cake that is made out of cinnamon roll ingredients but is less messy and can be served at business meetings.

BREAKFAST-ONLY CONCEPTS. Upscale concepts specializing in breakfast are proliferating, and their capital seems to be Denver. This is the homebase of the only upscale breakfast chain that so far has made serious strides toward a national presence: Le Peep.

The Mile High City is also home to restaurants with the appropriate names of Dozens, Scrambles, The Delectable Egg, The Eggshell, and The Egg-Ceptional Eatery, among others, all of them apparently flourishing. As if that were not enough, nearly every eating establishment in town reportedly has begun to offer breakfast to tap into what appears to be a lucrative market. "Everybody and their brother does a 99-cent breakfast," says Scott Diamond, co-owner of Dozens. "It's definitely a battle for the buck. When my partner and I conceived the idea for Dozens, almost nobody was in the business; but by the time we opened, the market was cluttered. Believe it or not, there's now upscale breakfast places a half mile to the north of me and a half mile to the south of me."

Breakfast meetings are particularly popular in Denver, says one observer. The popularity of such meetings may be an outgrowth of their availability in the first place, but more have opened as the potential became apparent.

Le Peep specializes in omelets, frittatas (an egg dish similar to a crustless quiche), and unusual and attractive egg dishes complemented by pan-

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MARKET SEGMENT REPORT

BREAKFAST

The Pump Room caters largely to hotel guests with its traditional breakfast fare.

BREAKFAST *from p. 174.*

cakes, French toast, several side dishes, and fresh-squeezed orange juice. Prices range from $1.95 for oatmeal with nut mix or granola with blueberries, to $5.95 for an omelet made with chicken, mushrooms, water chestnuts, broccoli, and cream cheese, then topped with hollandaise.

In between are such unusual selections as pancakes made with trail mix; an omelet made with marinara sauce and Italian cheeses; and a frittata made with cheese, chorizo sausage, bell peppers, onions, jalapeno peppers, and green chili salsa.

All of this is served up in a light, bright, upscale atmosphere quite unlike that of an old-style coffee shop. Skylights let sunshine flood in, and many units have outside eating areas.

GROWTH CURVE. Le Peep grew out of Aspen's Village Pantry, which specialized in breakfast and lunch only so that its slow-talking owner, Colorado native Buddy Waldman, could close early in order to fish, hunt, and ski. In 1983, after opening one company unit and one franchised Le Peep, Waldman hooked up with Allen J. Bernstein, a fast-talking New York fast food franchisee who saw a great deal of promise in the concept.

The rest is history, as they say. Now there are 28 restaurants, 17 of them company-operated and 11 of them franchised. Another 46 should open in 1987, says Bernstein, now chairman of the board. Units are located in Southern California, Denver, Albuquerque, Boulder, Minneapolis, Wichita, Milwaukee, Chicago, Atlanta, Dallas, and on Long Island. Units are opening soon in Toledo, Houston, Orlando, Omaha, Cincinnati, Cleveland, Columbus, Austin, and Pittsburgh.

One Wall Street analyst who follows the restaurant industry raises the question of whether breakfast-only restaurants such as Le Peep can generate the sales necessary for an adequate return on investment when they typically operate only eight hours a day, from 6 a.m. until 2 p.m.

Bernstein refutes the question by pointing out that Le Peep restaurants usually go into existing properties in strip centers and other locations, and typically require an investment of only $300,000. "We have a very, very low break-even point," he says. "An operator can make $700,000 a year and show a 35 to 40 percent return on his investment capital. Combined food and labor costs average only 54 percent."

Another Denver operation is Dozens, with two units. The first opened in 1984 and is patterned after California's Omelette Parlors, operated by Santa Monica, CA-based Grand American Fare. Diamond, co-owner of Dozens with Lance Nading, worked for Grand American Fare for some eight years before striking out on his own.

Diamond and Nading built the units

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MARKET SEGMENT REPORT

BREAKFAST

Convenience stores have been tempted by breakfast, but by and large, c-stores can't offer the convenience factor of fast food: drive-thrus.

BREAKFAST *from p. 178*

themselves, seeking a light, airy atmosphere. The restaurants feature skylights, bleached wood floors, and a yellow and green motif. Walls are decorated with photographic blow-ups of the graphic art found on fruit labels. Both stores also feature patios.

Dozens is billed as a "fresh eggsperience," and the owners view the fact that everything is fresh and cooked from scratch as their competitive edge. Juices are squeezed fresh daily, and coffee is ground fresh. Every dish is garnished with several pieces of fresh fruit. Huge omelets are served with whole wheat English muffins and heaps of fried potatoes.

BUSINESS BUILDER. To exploit the business connection during the week, many of the booths in Dozens feature telephones. "This is a definite business builder," says Diamond. "A lot of salesmen come in and set up their whole day."

The 15 omelet varieties include one made with green chilis, tomatoes, and cheddar; one with avocado, tomato, and goat cheese; another with fresh fruit, walnuts, and yogurt; and yet another made with crab and shrimp combined with Swiss cheese and hollandaise sauce. Prices are in the $4 to $5 range. Also featured on the menu are Belgium waffles, fruit smoothies (made of bananas, berries, yogurt, and fresh-squeezed orange juice blended together), sweet rolls, and biscuits and gravy.

Diamond says that Dozens derives about 60 percent of its sales from breakfast and 40 percent from lunch during the week, when the average check is about $5.50. On the weekends, average check is about $6 and customers come for brunch.

The first Dozens unit in Aurora, a Denver suburb, seats about 150 people and was expected to gross about $500,000 in 1986, says Diamond. The second unit seats only 45 with another 15 on a patio, and will gross less but probably net more, he notes.

NATIONAL HOPEFUL. Yet another Denver egg eatery is The Delectable Egg, with three units in the Denver area. Locations are going to open soon in Boston and in Tyson's Corner, VA, and the company is negotiating for another location in Denver. Owners are two sisters, Mindi Atkinson and Sherry Kirchner. They say that they hope to eventually be a national chain.

The Delectable Egg specializes in omelets, smoothies, eggs in pockets, frittatas, pancakes, waffles, French toast, and various kinds of eggs. Eggs in pockets consist of pita pockets layered with scrambled eggs, house potatoes, and various fresh ingredients, covered with melted cheese. They are served with "Grandma's Apples."

Frittatas, made with three eggs, include the "Bostonian Catch," made with seafood and topped with clam sauce, broccoli, and melted cheddar, and "The Don," made with mushrooms, green peppers, onions, Italian sausage, and marinara sauce covered with hot mozzarella. The frittatas are something like a pizza, with egg on the bottom and toppings above. The highest price on the menu, which also includes sandwiches and a daily special, is $5.75.

Like so many of the other Denver breakfast restaurants, The Delectable Egg appeals to businessmen. And even though the company's marketing director, Reenie Johnson, says that all Denver's breakfast places seem to be very busy, she agrees that the Denver market is overbuilt. "That's one of the reasons that we want to go nationwide," she says. "There are not so many breakfast places in other parts of the country."

Like Le Peep and Dozens, The Delectable Egg offers a simple but sophisticated atmosphere. Original artwork, which changes every month, adorns the exposed brick walls. The airy rooms are decorated in shades of brown and peach.

Out in California, Santa Monica-

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MARKET SEGMENT REPORT

BREAKFAST

Sisters makes the biscuits for its breakfast sandwiches with buttermilk so they don't crumble when eaten.

Portability and convenience are paramount in the battle for breakfast share being waged by fast feeders.

BREAKFAST *from p. 182.*

based Omelette Parlors is one of the companies that lay claim to being among the first upscale breakfast concepts in the country. Nine Omelette Parlors (the first opened nine years ago) are scattered around California and Colorado.

The menu features 10 different omelets with such ingredients as Italian sausage, spinach, and mushrooms; chili, cheese, and onions; and fresh fruit. All omelets are $3.95. Waffles, French toast, and bacon and egg platters help round out the menu.

BREAKFAST MEETINGS. In California, too, breakfast meetings are becoming important, and the Omelette Parlors also offer telephones at many tables. "It seems that all of a sudden breakfast is recognized as a viable entity," says Jim Furry, president of the parent company, Grand American Fare, which operates 33 restaurants altogether. "Every year our sales increase significantly. These are very nice little operations for us."

Omelette Parlors cater to the business breakfast market by offering breakfast buffets for meetings. A croissant buffet, with juices, croissants, danish, and a fresh fruit tray, is $4.95 per person; a Mexican buffet, with juices, egg burritos, a Mexican egg casserole, rice, refried beans, Mexican potatoes, and Mexican pastries, is $6.25, as is a more typical breakfast buffet of scrambled eggs, bacon and sausage, fresh fruit, potatoes, muffins and French toast.

Furry says that Grand American Fare will continue to expand the Omelette Parlors, although nothing is firm at this time. The units average from $600,000 to $800,000 in sales a year, and are open only from 6 a.m. until 3 p.m.

Another California company that derives most of its sales from breakfast-type entrees is called The Cook Book, with two units in Costa Mesa, and others to open soon in Huntington Beach, Cypress, and Ventura Park, CA. The Cook Book differs in several respects from many of the other upscale breakfast places; the restaurant is open all day, and the menu is much broader than is typical. The restaurant caters to families as well as businessmen, and annual volume is higher than for most of the upscale breakfast places. Owner Ash Conner says that he expects Cook Books to average $1.2 million in annual sales judging from current sales.

The Cook Book menu features more than 100 omelets made from a vast array of ingredients, including chicken livers, mortadella sausage, Italian sausage, ham, chopped bacon, link sausage, salami, chorizo, pastrami, cottage cheese, jalapeno peppers, spinach, bean sprouts, diced cactus, and smoked baby sausage. There is even an omelet made with ham, pineapple, coconut, and raisins, and another made with banana, walnut, and cheddar. A Mariner omelet comes with scallops, avocado, roasted almonds, and Swiss cheese. All omelets are served with hash browns, jelly, and a choice of sourdough, whole wheat or rye bread or an English muffin, a blueberry muffin, or corn bread.

COMPUTERIZED. "Even though it looks like so many omelets, preparation is easy because the recipes are all computerized," says Conner. "The cook just calls each entree up on the computer and goes from there."

All omelets are priced at under $7, with most in the $4 and $5 range. Customers also have the opportunity to create their own omelets, with different ingredients priced individually.

The menu also offers luncheon items and omelet dinners; however, Conner

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MARKET SEGMENT REPORT

BREAKFAST

Le Peep is the most promising entry in a relatively new category specializing in breakfast.

Restaurants which specialize in breakfast service are making inroads in the mid-priced family dining market.

BREAKFAST *from p. 186.*

says that 70 percent of his business comes from breakfast entrees, and almost half comes during traditional breakfast hours.

Conner describes the Cook Books as "upgraded coffee shops," with lots of antiques, paintings, and fresh flowers. Colors are light, and he describes the atmosphere as "comfortable."

Phoenix is another market where upscale breakfast places are popping up. This is the home of The Good Egg, which operates four units in Phoenix, Boulder and San Diego under the corporate name of Our Good Eggs Inc. A fifth unit in Phoenix was set to open in January.

"We are planning to open several more units in marketplaces where we are already open, with an eye to franchising," says Bob Smith, a director of the corporation who is currently a Burger King franchisee. He is part of a group of new owners, headed by president Roger Flansburg, who purchased the company in March of 1986. "We were first drawn to the business as customers," Smith adds.

A customer can have his eggs prepared in one of over 40 different ways at The Good Egg, or can select from such entrees as a cashew blueberry gourmet pancake, a breakfast burrito, or a trail mix and mandarin orange pancake made from freshly ground wheat. Average check is about $5.

MID-PRICED RESTAURANTS. The new breakfast-only restaurants are successfully exploiting a niche that by all rights might have belonged to the existing breakfast-oriented chains such as Village Inns, IHOP, and Perkins: They offer similar pricing and average checks, and a similarly interesting diveristy of menu.

Where the upscale breakfast places differ is in image; many of them attract a "Yuppie" clientele with their trendy menus and decor, and thus can take advantage of the growing trend toward using breakfast meetings as a pleasant way to extend the workday. In addition, they benefit from the fact that they are new, not the old standbys.

Meanwhile, fast food concepts with their emphasis on portability and convenience, as well as c-stores, have been squeezing the mid-priced market at the bottom end of the price scale. Result: The mid-priced, family-oriented, coffee shop restaurants that once thrived on breakfast business have faced sharply increased competition at the same time that the breakfast market has been growing.

Players within the mid-priced segment have responded in recent years by building other dayparts, slowly and steadily upgrading, and promoting value. Denny's Grand Slam Breakfast, at $1.99 competitive with any fast food breakfast, has become a classic in the segment.

Mid-priced family restaurant operators say that when fast food operators first began promoting breakfast, their sales were hurt. Now sales have stabilized, and upscale breakfast places are seen as more of a threat. Yet at the same time there is optimism among the operators of mid-priced family restaurants that have long derived an important part of their sales from breakfast because of the country's new love affair with the daypart.

Says IHOP's vice president of marketing Steve Pettise: "The more exposure the daypart gets, the better. At some point they're going to come to the Cadillac of breakfast—IHOP."

Pettise admits that the competition is fierce, however, and says that even within his own company he'll find disagreement with his view.

"Yes, fast food hurt us at first, but I

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MARKET SEGMENT REPORT

BREAKFAST

The 'business breakfast' has emerged as a viable new avenue of sales growth, and is being pursued by a number of companies with mid-priced and upscale dining concepts.

BREAKFAST *from p. 188.*

feel we're becoming more competitive all the time," he says. "When someone goes out and advertises a pancake or breakfast sandwich, I just love it because I can come back and advertise everything from cheese blintzes to cinnamon raisin pancakes. Try to get that at a fast food place."

IN DISGUISE. IHOP, which derives over 50 percent of its sales from breakfast items and 35 to 45 percent of its sales during breakfast hours, is attempting to build weekday breakfast by promoting the wide variety offered and about the value. A popular long-running promotion has been the Rooty Tooty Fresh 'n Fruity breakfast special, advertised by television spots showing a man wearing a disguise of glasses and mustache when he comes into a restaurant. He wants to buy the special, consisting of two eggs, two pieces of bacon, two pieces of sausage, and two specialty pancakes (either strawberry, blueberry, peach, or cinnamon apple) for as little as $1.99 depending on the location, but he is embarrassed to say the name. Then he sees that the entire restaurant is filled with customers wearing a similar disguise.

"These aren't discounts, these are values," Pettise points out. "These kinds of values reinforce the strength of our tremendous variety."

Another chain that enjoys a reputation for value at breakfast is Columbus, OH-based Bob Evans Farms Inc., which also uses aggressive promotions to build weekday business. The company, which uses a country theme in its 169 units—many of them along interstate highways—also promotes value.

"We really have two breakfast customers," says Roger Williams, director of marketing. "The weekday customer has a smaller check, is more convenience-driven, and is more likely to dine with co-workers and in smaller groups. Weekend breakfast is more of an event. We have a dual strategy."

During the week, Bob Evans concentrates on turning tables and building checks. Promotions for weekday breakfast are external, in newspapers and on the radio. "We took a chapter out of the Denny's book when we saw their success with the Grand Slam Breakfast at $1.99," says Williams. Bob Evans offers a similar special, with four different breakfasts available for $2.49.

On weekends, lines often form out the front door at a Bob Evans, so promotions are internal.

Bob Evans has seen no dramatic changes in its breakfast business in recent years, just a gradual evolution of the menu. As customers' tastes change, the company has added seasonal fruits and is now testing pancake toppings and working with omelets.

Minneapolis-based Country Kitchens International Inc., a subsidiary of Carlson Companies, operates 250 country-themed restaurants in the mid-central U.S. Some 40 percent of the chain's sales derive from breakfast items sold at various times of the day, with about 25 percent of sales coming during traditional breakfast hours.

The company has made a name and sparked imitators with its "Skillet Breakfasts," a line of five big breakfasts served in a skillet. For example, a Southern Skillet contains sausage patties, biscuits and gravy, and eggs. Also popular is Country Eggs Benedict, made from country ham instead of Canadian bacon.

Country Kitchens' customers are very much lower-middle to middle class working people, says senior vice president of marketing Alan Post. "Because of that, we don't get too fancy," he says. "We just went through the menu and threw out all the trendy stuff. If it's hot in New York, it won't make it with us."

Country Kitchens, too, promotes value. "I call our whole marketing plan 'Back to the Future,' " says Post. "We've stayed in business since 1939 basic service and value."

Denver-based VICORP, which oper-

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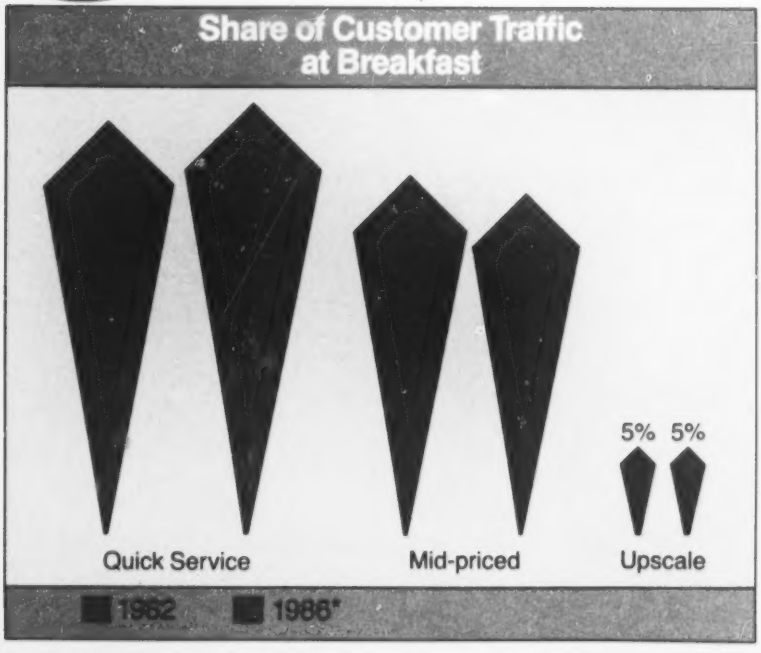
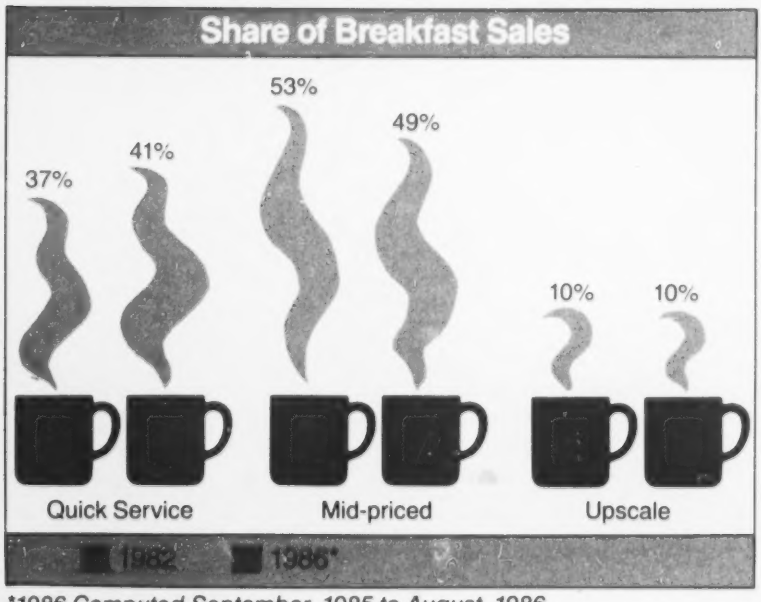
BREAKFAST





1986 Computed September, 1985 to August, 1986.
Source: CREST

BREAKFAST *from p. 192.*
ates 267 Village Inn restaurants throughout the country, derives about 40 percent of its sales from breakfast, says James Hill, director of menu development. "We are trying to reestablish ourselves in the breakfast market because the competition is getting so intense," he adds.

To establish a stronger presence, Village Inn is developing several new pancake flavors, such as cinnamon nut, raisin, and peanut butter and jelly. The company also recently introduced a new line of skillet breakfasts, consisting of seasoned potatoes served in a skillet and topped with melted cheese and eggs. Five varieties are available: Mexican, Italian, cheese and onions, ham and cheese, and "the works."

UPSCALE RESTAURANTS. Typically, breakfast has not been an important daypart for upscale restaurants: Their morning time is better spent prepping for lunch and dinner. Sunday brunch has been more successful, because it utilizes a restaurant that would otherwise be sitting empty.

In the Denver market, where breakfast has proven to be so popular, an upscale restaurant called The Marina offers a breakfast buffet every morning, which has proven very successful. TGI Friday's is reportedly testing a breakfast menu in some of its units, but details were sketchy. In Chicago, old favorites like Lou Mitchell's in the financial district have successfully served breakfast year after year. But these are the exceptions.

Phoenix's six Lunt Ave. Marble Clubs, operated by Big 4 Restaurants Inc., recently introduced a variation on Sunday breakfast that they call "The Sunday Splurge." The breakfast is priced at $5.95 to $7.95, and is so successful that the company may add breakfast on Saturday, says director of advertising Barbara Gordon.

The breakfast includes an omelet station where omelets are made to order; a fresh-squeezed juice bar serving fresh orange juice, fresh tomato juice, and fresh grapefruit juice; fresh baked goods such as bagels, croissants, and coffee cakes; and "country breakfast" selections such as biscuits and gravy, thick French toast, and corned beef hash. The brunch attracts from 200 to 250 customers per store on Sundays, says Gordon.

One fine dining restaurant that does offer breakfast is Chicago's Pump Room, located in the Ambassador East Hotel and operated by Lettuce Enter-

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"Pepperidge Farm Danish Pastries taste like they come fresh from the cornah bakeshop."

Pepperidge Farm Danish Pastries are an all-time favorite breakfast food with your customers. And it's no wonder. Because Pepperidge Farm Danish have an old-fashioned corner bake shop taste and goodness.

Whether you serve these Danish piping hot or not, your customers will find them impossible to resist. Pepperidge Farm makes it all easy because they're packed in an assortment of almond bear claw, apple, berry, cinnamon raisin, maple and lemon.

To sample, contact your Campbell sales representative.

PEPPERIDGE FARM

"Pepperidge Farm remembers."

For information circle number 139

MARKET SEGMENT REPORT

BREAKFAST

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tain You Enterprises, Inc. (LEY). Yet the Pump Room exemplifies the reasons that many upscale restaurants choose to forgo morning service.

"I don't think we would offer breakfast if we were not in a hotel," says Mark Torme, LEY's general partner in charge of the Pump Room. "Breakfast tends to detract from the emphasis we can put on lunch and dinner. In the morning, we're working to get ready for the people who are already here instead of putting the effort into the rest of the day. I think that is probably the number one reason that hotels in general have good, but not great, restaurants: They are spread too thin."

Torme notes that 80 to 85 percent of the Pump Room's breakfast customers are staying in the Ambassador East or in the Ambassador West across the street, which doesn't offer a full-service restaurant. Each day perhaps 10 percent of the customers are local people meeting there, but Torme says that the much-talked-about "power breakfast" hasn't caught on in Chicago. The Pump Room offers a typical breakfast menu of eggs, bacon, ham, pancakes and the like. "People don't want strange things for breakfast," he adds.

Two other LEY operations, R.J. Grunt's and Fritz That's It, have offered popular Sunday brunches for many years, and management's experience there has been that brunch is more compatible than breakfast with an upscale or theme operation.

POPULAR. "Sunday brunch is three times as popular as a busy lunch," says John Buchanan, a LEY general partner. "This is nice for the restaurant because the check average is much higher than lunch. We have 200 to 300 people come through a 100-seat restaurant between 10 a.m. and 3 p.m. on a Sunday." Nevertheless, a brunch is typically very labor intensive and costs more to execute than meals. "It's a tradeoff," says Buchanan. "Brunch is profitable because otherwise you have a building sitting there unused."

At both restaurants, the basic brunch format is to offer a beverage, a choice of six or seven different entrees, and unlimited trips to the brunch bar (a converted salad bar) for one set price. The entrees range from steak and eggs, omelets, and frittatas to quiche, fresh grilled or sauteed seafood, and beef tenderloin.

The brunch bar offers some 35 to 50 items ranging from fresh fruits and pastries to "munchies" such as guacamole, shrimp and avocado salad, sardines, pickled herring, caviar, cream cheese spreads, cold cuts, ham, artichokes, and asparagus.

"Sunday brunch will be here forever," says Buchanan. "People who have been out the night before don't want to get up and cook, and Sunday brunch is a good time for family get-togethers."

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MARKET SEGMENT REPORT: FRESH F...

Restaurant Business

A BILL PUBLICATION

MARCH 1, 1987

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REGIONAL REPORT

Midwest: Not Boom, Not Bust

BY RONA GINDIN

There's mixed news coming out of the nation's heartland. Major metropolitan areas such as Minneapolis, Kansas City, Des Moines, Chicago, and Indianapolis are experiencing slow, steady growth in economy, employment, and income.

But rural areas dependent on agriculture have likely "bottomed out," experts agree, although a quick recovery is not predicted. And sections of the Midwest reliant on farm equipment and steel are in trouble too.

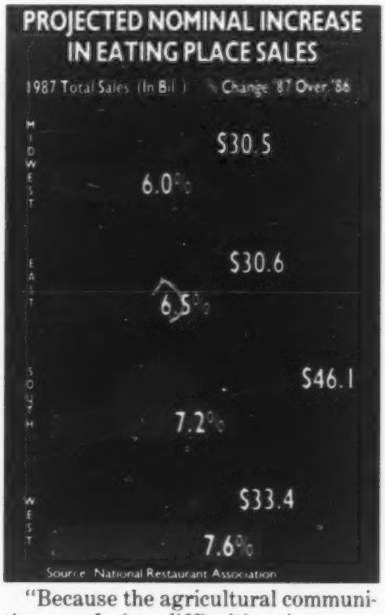
However, many industrial parts depend on a mix of businesses such as brewing, chemicals, electricity, and airplanes, and therefore remain healthy, says Jay Fairfield, an analyst with A.G. Edwards, Inc., St. Louis.

The Midwest consists of the East North Central region, including Illinois, Indiana, Michigan, Ohio, Wisconsin, where autos, steel, rubber, robotics, and farming are primary industries. The West North Central region encompassing Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota is the site of farming and farming equipment, and aerospace and defense industries.

RESTAURANT GROWTH. Overall, the Midwestern restaurant industry will show a six percent nominal sales increase this year over 1986, according to the National Restaurant Association (NRA). This is below nominal sales increases projected by the NRA for the East, 6.5 percent; the West, 7.6 percent; and the South, 7.2 percent. Some analysts, however, are forecasting a nominal sales increase for the Midwest as high as 7.5 percent.

A. G. Edwards' Jay Fairfield says it's difficult to tell how much 1987's sales increase will come from new restaurants and how much will represent gains for existing operations.

"Since it will be difficult to raise prices in this market," says Fairfield, "real growth of existing restaurants will likely range from slight losses of almost two percent to slight gains up to about two percent.



"Because the agricultural communities are facing difficulties, increases will come from the metropolitan areas," he says. "In cities such as St. Louis, Indianapolis, Chicago, Des Moines, Minneapolis, and Kansas City, overall business is strong."

KEY MIDWEST STATE. Illinois represents both the positive and negative growth trends of the Midwest. For Chicago and its suburbs, business is very healthy. "Chicago's growth and construction are benefitting the restaurant industry tremendously," says Andrew Kelly, president of the Illinois Restaurant Association.

And the state overall is projected to gain the most jobs, 376,000, between 1982 and 2000, according to Nestor E. Terleckyj, president of Washington, DC-based NPA Data Services, Inc.

Meanwhile, the industrial areas of Illinois dependent on steel, auto production, and farm equipment, have problems, says Kelly.

In the state of Minnesota, business is "not booming, not busting," says Henry Kristal, president of the Minnesota Restaurant Association and co-owner of St. Paul, MN-based Embers Restaurants, a 28-unit family restaurant chain with stores in five Midwestern states. Kristal projects that between 25 and 40 percent of the state's restaurants will likely close or change hands during 1987.

"Business is steady but marginal," notes Kristal. "Minnesota has restrictive legislation which may really hurt operators," he says. "Although restaurant sales levels are about the same in other Midwestern states as in Minnesota, the cost of doing business in these states is lower so more restaurants will probably survive."

MARGINAL POPULATION. In terms of population, the Midwest will show marginal gains through 2005, according to Woods & Poole Economics, Inc., Washington, DC. While population grows at a national annual average of one percent, each of the Midwest states will post population growth below that.

"Not many people are moving out, but the ones who do tend to be young, leaving behind people who are past child-bearing age," says Nestor Terleckyj. Restaurants can benefit from this increase in the number of childless couples, who spend more disposable income on eating out, he says.

ROCKY ECONOMIC ROAD. The Midwest will have another rocky year, predicts Steven Malin, an economist with The Conference Board, Inc., a New York-based research organization. Malin cautions that the trade imbalance could continue to hinder the ability of domestic heavy industries to compete with foreign companies.

Experts also predict the farm belt will continue to suffer because food prices are down due to a 1986 boom harvest. Although these lower prices are detrimental to local economies such as parts of the Midwest, they can help reduce food costs in restaurants.

The cities, meanwhile, won't likely attract hordes of new settlers, but population, employment, and economic indicators seem to point to a healthy ending to the decade.

FOCUS ON INTERNATIONAL FRANCH

Restaurant Business

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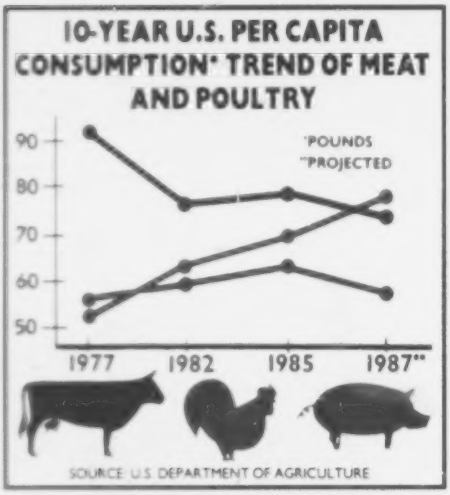
BUSINESS BAROMETER

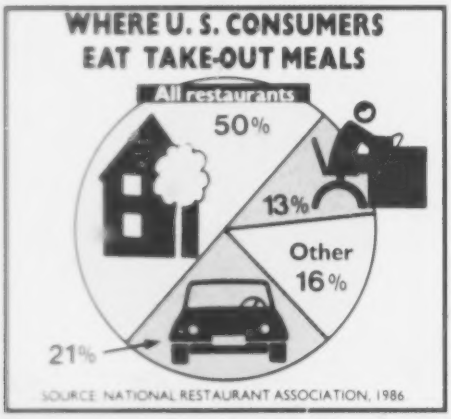
The Hard Facts Shaping Our Industry

By Linda Cecere



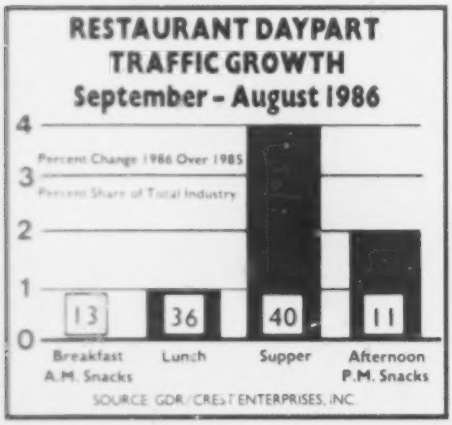
Poultry Beats Beef in '87

For the first time, U.S. per capita poultry consumption is projected to rise to an estimated 78.6 pounds in 1987, surpassing the projected 73.8 pounds of beef consumption. This reverses beef's modest recovery in 1985 to 79.1 pounds following a declining consumption trend that began in the late 1970s. Peak consumption of beef was 91.7 pounds in 1977. By contrast, per capita poultry consumption (mostly chicken) has continued to rise in popularity from 53.2 pounds in 1977 to 70.1 pounds in 1985 to the predicted record level this year. However, pork is forecasted to fall to 56.8 pounds in 1987, reversing a mostly upward consumption trend from 55.8 pounds in 1977 to 62.1 pounds in 1985.



Take-Out Goes Home

Almost 50 percent of take-out meals and snacks are consumed at home. Some 21 percent of all take-out food is consumed in a car; 13 percent at work; and 16 percent in places such as school or in a friend's house. The vast majority of take-out food, 66 percent, is purchased at fast food outlets; 20 percent is purchased at table service restaurants; 14 percent at grocery and convenience stores; and 13 percent in other locations. Most of the take-out orders, 66 percent, were placed at the restaurant counter; 23 percent in a car; and almost 11 percent over the telephone.



Supper Outstrips Breakfast

Breakfast's share of total customer traffic flattened last year at 13 percent, while supper's share increased four percent to 40 percent. Lunch traffic rose a mere one percent to a 36 percent share, and traffic for afternoon meals and snacks rose two percent to an 11 percent share. Fast food outlets gained customers in every daypart while midscale and upscale restaurants lost traffic in each daypart. Quick service restaurants showed an overall increase of 4.3 percent while midscale and upscale restaurants generally lost traffic at the rate of 5.4 percent and 5.7 percent respectively.

CHARTS DESIGNED BY SHARI FANG

Restaurant Business

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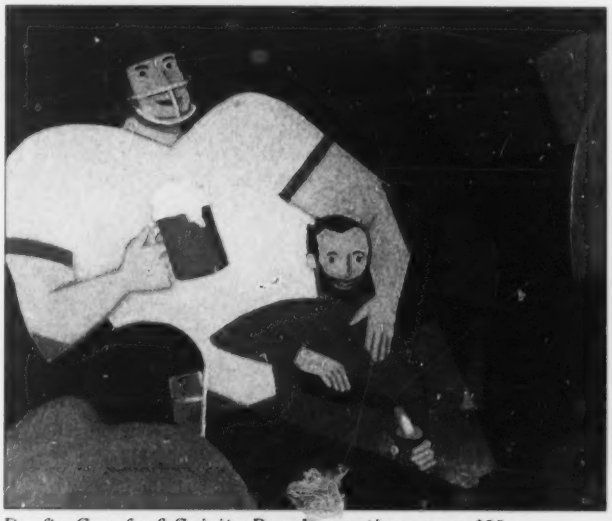

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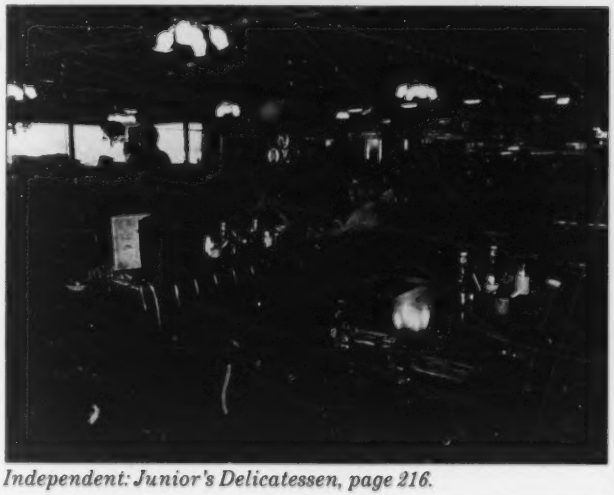

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REGIONAL REPORT

Strong Mid-Atlantic Economy Forecast

BY CHERYL TURI COUTTS

Continued economic growth, especially in the high-tech and service sectors, is projected for the Northeast, with the Middle Atlantic states of New York, New Jersey, and Pennsylvania prime benefactors.

"The Middle Atlantic region has been the force driving the nation from a manufacturing orientation to a service orientation," says Rosemary Scanlon, chief economist for the Port Authority of New York and New Jersey.

"The New York and New Jersey metropolitan areas are seeing a real boom in the financial and business services sector fueled by Wall Street businesses," says Scanlon.

Unemployment rates have dropped to between five and seven percent in the three states, with some suburbs, including Westchester County, New York, and parts of New Jersey reaching all-time lows of 3.4 percent.

SUBURBS LEAD. Also leading the way to economic strength are the suburbs, which in many cases have displayed outstanding development in terms of increases in higher real per capita income, jobs, and new businesses.

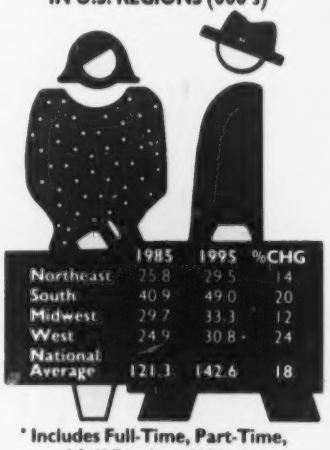
The suburbs in Pennsylvania, for example, have contributed to that state's economic turnaround, says Tom Luce, associate director of the Wharton Economic Monitoring Project at the Wharton School of the University of Pennsylvania. "The suburbs have seen an increase in employment, office building, and personal income."

The restaurant industry has taken advantage of the boom, following the flight of many baby boomers, aged 25 to 44, to the suburbs of Middle Atlantic metros, for affordable housing.

Fred Sampson, president of the New York State Restaurant Association, reports restaurant growth in the suburbs has been stronger in past years.

The National Restaurant Association (NRA) predicts Middle Atlantic area eating place sales will increase from $19.6 billion in 1986 to $20.7 billion in 1987. Despite the NRA's prediction of this small nominal increase in sales of 5.7 percent, Middle Atlantic eating place sales are the fourth highest in the country.

PROJECTED EMPLOYMENT TRENDS IN U.S. REGIONS (000's)*



	1985	1995	%CHG
Northeast	25.8	29.5	14
South	40.9	49.0	20
Midwest	29.7	33.3	12
West	24.9	30.8	24
National Average	121.3	142.6	18

* Includes Full-Time, Part-Time, and Self-Employed Workers.
Source: National Planning Association

VULNERABLE INDUSTRY. In spite of the upbeat economic outlook for the area, the restaurant industry is vulnerable on several fronts. "Some new laws could have a very chilling effect on business," says the New York State Restaurant Association's Sampson.

Sampson expressed concern over the enactment of strong dram shop and liquor liability laws, tougher smoking regulations, and the stringent new federal immigration law which imposes criminal penalties on employers found guilty of hiring illegal aliens.

"There is a real fear among restaurant operators that their bottom line will wind up paying for insurance and that their source of employment may be depleted because of the immigration law," says Sampson.

Market saturation is another critical issue facing the Middle Atlantic-based restaurateur. However, hamburger chains looking to expand should consider the Middle Atlantic states, and the Northeast as a whole, according to the 1985 Restaurant Count by Market study (RE-COUNT report) by Restaurant Consulting Group, Inc.

Of all restaurant concepts, burger stores accounted for only 4.7 percent in the New England states and 4.8 percent in the Middle Atlantic area. That number is well below burger's 8.5 percent average share of national market.

STABLE POPULATION. A problem facing Middle Atlantic businesses is the fact that the size of the region's population has begun to stabilize at a time of rising employment, resulting in a real fight for workers, particularly within labor intensive industries like restaurants. Many employers are offering starting salaries higher than the minimum wage.

Despite the increased numbers of working women and immigrants, particularly from South America, employers still will have a hard time filling jobs, say experts.

According to Nestor E. Terleckyj, an analyst with the National Planning Association of Washington, DC, the total Middle Atlantic area population has remained virtually unchanged since 1975 at just over 37 million. And he projects the number will rise to only 38.7 million by 1995.

MORE JOBS. On the other hand, the number of employed has increased from 15.7 million in 1975 to 18.6 million in 1985. The National Planning Association predicts employment in the Middle Atlantic area will reach 21 million by 1995.

So what is ahead for 1987 and beyond? Rosemary Scanlon of the Port Authority of New York and New Jersey expects to see a rise in consumer spending to accompany steadily rising wages and a strengthening economy. This is in spite of the fact that a substantial number of employees in the manufacturing sector have lost their jobs and have either dropped out of the work force, or have entered lower paying service jobs.

It is up to restaurant operators to respond to the changing demographics of the Middle Atlantic region.

ICE CREAM

Frozen treats are more popular than ever and operators opt for quick expansion through dual concepts.

Dual concepts and international markets are the two major expansion vehicles for the ice cream segment. With premium ice cream, gelato, and frozen yogurt hitting new highs in popularity in 1986, many operators in the ice cream segment are keeping their customers interested by adding more variety to their menus.

Frozen confections have fit in nicely with the ongoing health trend, according to the major ice cream chains. Evidence of the increasing popularity of frozen treats can be seen in sales growth and increased number of units and rising customer counts.

The U.S. Department of Commerce shows that the segment's total number of units has increased 13 percent to 8,781 in 1986 from 7,772 in 1985; projections for 1987 are 10,211. Sales for 1986 are reported to be $1.4 billion, up from 1985's figure of $1.2 billion. The segment is projected to reach $1.6 billion in 1987.

YUPPIE-DRIVEN MARKET. According to George Rice, industry consultant and chairman of GDR Enterprises, Park Ridge, IL, the ice cream industry performed well in 1986, better than previous years. Data from CREST, the Consumer Research on Eating Out Share Trends, a service of NPD Research of Park Ridge, IL, a division of GDR, show that the increasing number of nutritionally fit consumers (those who exercise and eat healthy but do not count calories) and the busy urbanite consumer are largely responsible for the segment's growth.

Those two groups, which now account for about 61 percent of total households, says Rice, will purchase frozen treats because of the convenience of the product and the taste. The group most likely to bring down the segment's customer counts and sales is the restrictive dieters which make up 19 percent of total households.

DAIRY QUEEN. One of the giants of the frozen treat world, the Minneapolis, MN-based International Dairy Queen will be doing some major urban expansion with 175 new units opening this year. International expansion is also a priority with 40 new units opening primarily in Canada and Japan, as well as others in Thailand, Taiwan, and Cyprus.

The chain, which has in excess of 4,900 units, will also be busy this year with a couple of dual concepts. Last year the company started a dual concept test with International Multifoods' Mr. Donut concept.

Today, with six Dairy Queen and Mr. Donut combinations in operation, both companies have found dual concepting a success.

Says John Hyduke, director of new franchise development: "We get a great return on the breakfast part and Mr. Donut benefits during its traditionally slow dayparts."

Average unit sales for Dairy Queen are approximately $422,000 with an average check of $3.65. Cost of a turnkey freestanding unit is approximately $450,000; for a mall unit, $120,000.

Also involved in dual concepts is the Glendale, CA-based Baskin-Robbins Ice Cream Corp. The 3,135-unit chain, which is in 49 states and in several foreign countries, will expand its test selling ice cream in a unit of Dublin, OH-based Wendy's International.

Traditionally a mom-and-pop-operated chain, Baskin-Robbins is concentrating on more multi-unit operators for future development. Franchisees can expect to invest between $90,000 to $120,000 for a franchise operation. Five percent royalty fee and 1.5 percent advertising fee are also standard for the chain.

REFURBISHING. The chain is testing new menu items, strawberry and raspberry yogurt, in 26 of its U.S. locations. Other menu items the company is currently working on are ready-made desserts using its International Creams which include Chocolate Raspberry Truffle, Almond Amaretto, Grand Marnier, Cappuccino chip and Brandied Cherries Flambe.

With more than 800 franchised units, Yonkers, NY-based Carvel Corp. plans to bring its hard and soft-serve products into new territories both do-

ICE CREAM AND YOGURT STORES (50 franchisors)

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1985	1,230,115	46,437	1,183,678	7,772	242	7,530
1986*	1,380,439	55,765	1,324,674	8,781	274	8,507
1987*	1,600,732	67,363	1,533,369	10,211	329	9,882

** Estimated by respondents.*

mestically and internationally. A cash investment of $125,000 is typical for a Carvel unit and average annual unit sales range from $325,000 to $350,000.

Swensen's Ice Cream Corp., based in Phoenix, AZ, is building on its existing market presence as well as expanding internationally. The chain, which has 365 units in 38 states, will be opening another 25 this year. Internationally, the chain is already in Canada, Mexico, and Brazil and plans to open 15 more units in these countries this year. According to Richard Pope, senior vice president of development, the chain is testing extended menu items complementary to ice cream.

Franchise operations for Swensen's vary according to the size of the unit. A franchise fee is generally $20,000 to $25,000; however, turnkey operations can range from $200,000 for a dipping store to $420,000 for a full-scale restaurant/ice cream parlor.

JOINT CONCEPTS. The 350-unit Chicago-based Bressler's 33 Flavors plans to enter new markets this year through a dual concept program. The ice cream chain is building sales and customer counts by teaming up with Cheyenne, WY-based Taco John's International. Currently there are three units in operation, however, Bressler's plans to offer existing franchisees the option to add Taco John's to their units as well as sell the two concepts together to new franchisees.

The total cost of an average 500- to 1,000-sq.-ft. unit ranges from $100,000 to $125,000 with a franchise fee of $10,000. However, in an attempt to gain more multi-unit operators, additional units have a franchise fee of $5,000. Other benefits including lower royalty fees are granted to franchisees who operate a minimum of five units.

While the superpremium chains have begun to slow down expansion, frozen yogurt companies are still experiencing positive growth. The Haagen-Dazs Shoppe Co. Inc., based in Englewood Cliffs, NJ, has stopped expanding its dipping store portion of the chain. According to John Thomson, spokesperson for the company, Haagen-Dazs will concentrate on helping existing franchisees and helping to boost flagging sales.

Earlier this year The Pillsbury Co., the ice cream chain's parent company, was looking into restructuring alternatives for 313 franchised Haagen Dazs units. Cash buyouts and name changes have been discussed but neither have been finalized.

Swensen's specialties: banana split, milk shake, and two sundaes.

YOGURT MARKET. TCBY or The Country's Best Yogurt, based in Little Rock, AR, plans to be in all 50 states by year-end with the addition of 400 more units. The chain, which has approximately 475 units in operation, will also be expanding in Canada. A turnkey operation ranges from $90,000 to $155,000 for a typical 1,200-sq.-ft. unit. Annual unit volumes are approximately $200,000.

Next in line in the frozen yogurt world is the 105-unit Everything Yogurt chain, based in Staten Island, NY. The national chain has its highest concentration of stores in the Northeast.

The 11-year-old chain, one of the oldest in the yogurt line, will expand its Everything Yogurt concept into some new markets including Texas, Tennessee, and Ohio. Initial franchise fee is $20,000 and units range from 600 to 800 sq. ft. for a mall unit to 1,500 to 2,000 sq. ft. for a freestanding location.

Zack's Famous Frozen Yogurt, based in Metairie, LA, is gearing its expansion efforts to the Northeast. The 100-unit chain will be opening 125 new units this year as well as begin pursuing international expansion. In addition, menu variety has become a priority with new pies, shakes, and sundaes added to the menu. The chain is also testing sandwiches and soup for a possible 1987 rollout. The smaller, 60-unit, Dallas-based I Can't Believe It's Yogurt is also gearing up for expansion with plans to have 172 units open by year-end.–**C. C.**

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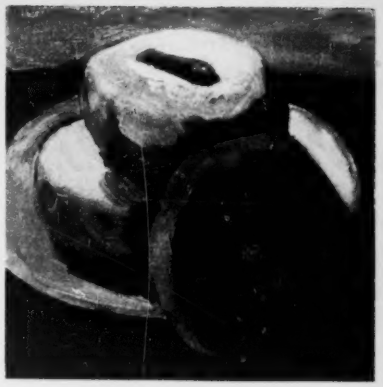
DONUT



Beset by competition from other quarters, operators in this segment are involved in projects designed to increase market share.

Despite only moderate growth in the overall donut segment, there is much activity among the chains within this sector. In an effort to expand what is essentially a limited daypart, three of the major chains—Dunkin' Donuts, Winchell's Donut Houses, and Mister Donut—are experimenting with joint-venture agreements, new products, and different styles of service, in an attempt to win more market share. Winchell's, recently spun off from parent Denny's, Inc., is gearing up for an aggressive new franchising effort following several years of flat growth. Meanwhile, the proliferation of cinnamon bun concepts and other specialty bakeries is placing additional pressure on the donut segment.

It is estimated that by year-end 1987, there will be 2,969 franchised donut shops contributing $997 million to total sales of $1.336 billion, as compared to 2,647 franchised units contributing $845 million to total sales of $1.168 billion in 1986.

CONCENTRATED GROWTH. Dunkin' Donuts, Inc., the largest presence in the segment, is represented by 1,539 units, the bulk of which—1,495—are franchised. Foreign franchisees control 142 of these franchised units. In the fiscal year ended October 1986, systemwide sales reached $648 million, and average annual unit volumes hit $454,400. Over the next year, Dunkin' Donuts has plans to open 90 to 95 new units in North America and 30 to 35 overseas. Most of this growth will be concentrated in areas where the chain already has a market presence.

In a bid to take advantage of the production capabilities of its Dunkin' Donuts units and to increase market share, the Framingham, MA-based company is experimenting with providing donuts to retailers for sale under the Dunkin' Donuts name. According to Richard N. Hart Jr., vice president and treasurer, Dunkin' Donuts is currently involved in a joint venture test to provide product to 30 convenience stores operated by Circle K Corp., Phoenix. Explains Hart:"The typical Dunkin' Donuts shop has the capability to produce more donuts than can be sold in the shop. Therefore, we developed an agreement with Circle K to set up a section in each convenience store which will serve as a Dunkin' Donuts satellite." In effect, the Dunkin' Donuts franchisee would act as a distributor, providing the Circle K stores with donuts baked in the franchisee's Dunkin' Donuts unit. Dunkin' Donuts is testing a similar arrangement with Zayre's, a Massachusetts-based retailing chain.

In the New York metropolitan market, the real estate-rich Riese Organization is co-building its franchised Dunkin' Donuts units with other, noncompetitive franchised concepts. Notes Hart: "This is an unusual situation; Riese is a unique operator. However, if there were other franchisees in other cities who wanted to do something like this, we would not close the door on the possibilities."

Hart pinpoints labor as the biggest challenge facing the industry in general and Dunkin' Donuts in particular. To meet the challenge, Dunkin' Donuts will replace its sit-down service counters with an express service counter similar to the type found in fast food hamburger units. Customers will place their orders at the counter and then bring their food to tables, booths, or remote counters located in the unit. According to Hart, the popularity of this new service method and the subsequent labor relief it provides, has provided the incentive for some franchisees to begin remodeling their stores. The new service mode will be introduced systemwide as stores are refurbished to accommodate it.

At Dunkin' Donuts, the initial franchising fee ranges from $20,000 to $40,000. The royalty rate is 4.9 percent while the advertising contribution rate is four percent.

GEARING FOR EXPANSION. Following years of little or no expansion activity, the La Mirada, CA-based Winchell's chain is poised for aggressive growth resulting from its spinoff from Denny's Inc., also of La Mirada. The expansion program follows the completion earlier this year of a master limited partnership agreement under

DONUT SHOPS (22 franchisors)

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1985	1,070,697	306,020	764,677	3,535	1,078	2,457
1986*	1,167,890	322,976	844,914	3,719	1,072	2,647
1987*	1,336,089	339,232	996,857	4,046	1,077	2,969

** Estimated by respondents.*

which Denny's, which went private through a leveraged buyout in 1985, retains 42 percent of Winchell's and manages the donut house chain.

Winchell's, which has done little or no franchising over the last several years, now consists of 711 company-owned units and 33 franchised stores located in 14 states, primarily in the West and Northwest corridor. (Last year, the chain withdrew from the Midwest.) According to Don Pierce, senior vice president of Denny's and president of its fast food group—which includes Winchell's and the charbroiled chicken fast food chain El Pollo Loco—Winchell's will now begin to implement a two-pronged franchise program. As a result, qualified parties will be able to purchase certain company-owned units or develop new Winchell's Donut Houses. "We plan to increase our market share by adding units and expanding aggressively in areas where we already have a strong presence, even in the hard-core Los Angeles area," says Pierce, adding: "We are interested in single-unit owner/operator franchisees who can devote the day-to-day attention these units need."

Winchells' intends to pinpoint company-owned units in locations the company finds difficult to support, and turn those areas into predominantly franchised markets. Becoming a Winchell's franchisee requires a $30,000 upfront fee, five percent annual royalty, and a three percent advertising co-op contribution.

Winchell's is also testing an arrangement with Circle K stores and Mini-Mart convenience stores (headquartered in Cherokee, OK) to provide donuts. This may eventually lead to some type of formal joint venture.

Mister Donut, a subsidiary of International Multifoods Corp., Minneapolis, is also testing a joint-concept venture with Dairy Queen International which is also owned by International Multifoods. Currently, there are seven units of a combination donut house and ice cream shop. The strategy behind the dual concept is to expand Mister Donut's traditional daypart. "Donuts are primarily a breakfast and snack item," explains company spokesperson Linda Berge. " Ice cream is an afternoon/evening item. Now, we have people who come in to buy an ice cream cone and leave with a box of donuts." The test began last year in franchised units located in Philadelphia, Chicago, and in home-base Minneapolis.

There are 722 Mister Donut units, 717 of which are franchised. The company anticipated that 50 to 60 new units will open in 1987.

Berge also reports that increased competition in the breakfast daypart due to the influx of specialty baked-goods concepts (for example, cookies, muffins, and cinnamon buns), Mister Donut has added new items of its own including muffins, cakes, and brownies. These items now account for 15 to 18 percent of sales.

CINNAMON COMPETITION. In the Midwest, the sweet smell of success is definitely cinnamon-scented. The rise in popularity of glazed cinnamon rolls was first visible through the efforts of T.J. Cinnamons, a concept developed by Ted and Joyce Rice in Kansas City, MO. Kenneth Hill, former president of Gilbert/Robinson Inc., now owns 50 percent of the business, and plans for aggressive franchised growth—300 units in four years—are in the works.

Gerald Diddle, president of Cinnamon Sam's, located in Kansas City, believes that the public has fallen in love with the cinnamon roll, which he describes as "a nostalgic product. There is a whole generation that has not tasted the fresh taste of a fresh baked product. We want to bring that product to their attention." The Cinnamon Sam's roll is available in three sizes: a signature gourmet roll which weighs in at half a pound; a party roll that is one-third the size; and a mini-roll, again one-third size smaller. The chain also sells cinnamon-raisin bread and a cinnamon bundt cake.

Diddle has great expectations for his giant gourmet buns: By year-end 1987 he forecasts 100 units; by the end of five more years he estimates there will be 800 to 1,000 units. Currently there are seven units in the Missouri/Kansas area; four are franchised.

Diddle points out that the company prefers multi-unit franchise owners willing to build five to six units. Final agreements have been reached to build 25 units in five states. The 1,000- to 1,400-sq.-ft units generate annual sales volumes of $250,000 to $325,000. Total estimated startup costs of $80,000 to $105,000 include a $20,000 franchisee fee, construction costs of $25,000 to $35,000, $25,000 to $30,000 worth of equipment, and working capital of $10,000 to $20,000. Royalty rate is five percent of sales and there is a two percent advertising contribution.–**D.M.B.**

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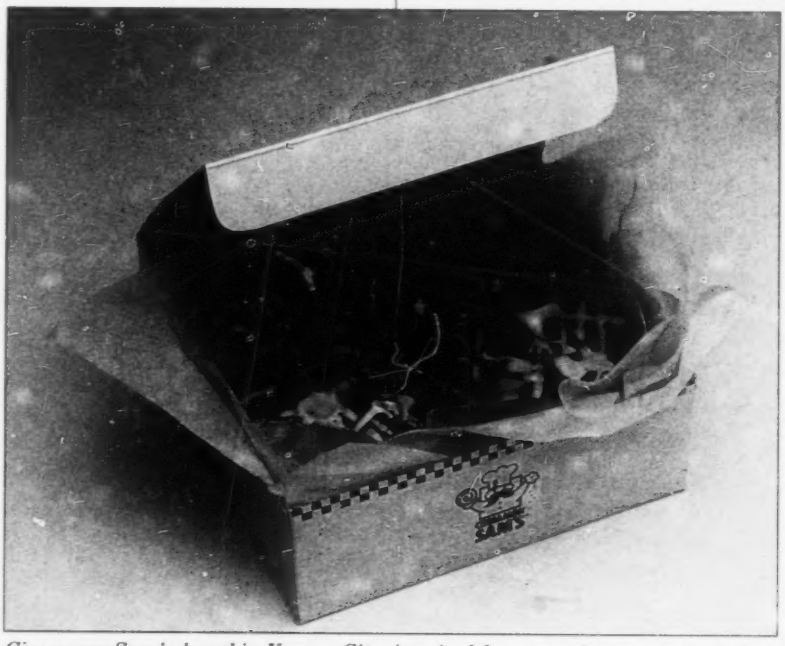

Cinnamon Sam's, based in Kansas City, is poised for expansion: management hopes that by the end of five more years there will be 800 to 1,000 units.

RESTAURANT FRANCHISING IN THE ECONOMY

The annual report is compiled by the Dept. of Commerce. Top thirty data was prepared by *Restaurant Business.*

BY ANDREW KOSTECKA

Franchising continues to make great strides in the United States because of its successful method of doing business and its significant role in the U.S. economy. Sales growth has been steady and employment is on the rise as an ever-widening array of industries tests the franchise waters each year.

BUSINESS FORMAT FRANCHISE. Franchising sales of goods and services such as restaurants and business services in more than 498,000 outlets are expected to reach more than $591 billion in 1987, about six percent higher than a year earlier, and about 77 percent over the level of sales at the start of the 1980s.

Employment in franchising, including part-time workers and working proprietors, was 6.3 million in 1985 and will probably reach more than 7 million by the end of 1987.

U.S. franchisors continue to move into foreign markets at a rapid rate: in 1985 there were 342 U.S. franchisors with over 30,000 outlets overseas.

PRODUCT FRANCHISING. Product and tradename franchisors such as soft drink bottlers, auto and truck dealers and gasoline stations still dominate the franchise field, accounting for an estimated 71 percent of all franchise sales for 1987 compared to 74 percent for 1985.

However, this type of franchising method has been losing ground since 1972 while business format franchisors, including restaurant franchisors, have been responsible for much of the growth of franchising in the United States since 1950.

Sales are expected to rise to $171 billion in 1987, compared to $153 billion in 1986 and $141 billion in 1985.

INCREASING SHARE. In contrast to product and tradename franchises, the number of establishments of business format franchisors is expected to increase to almost 353,000 in 1987, compared to 317,751 in 1986 and 301,689 in 1985. This upward trend should continue for the remainder of the 1980s.

Large franchisors with 1,000-plus units continue to dominate business format franchising: 53 companies accounted for 48 percent of all sales and 49 percent of all establishments in 1985. The total number of outlets reported by these large franchisors stood at 147,711 with sales of $68.1 billion. Thirteen of these large franchisors were engaged in restaurants and nine were in auto products and service.

Sales of products and services by business format franchisors to their franchisees totaled $9.6 billion in 1985 and could rise to about $10.3 billion by 1987. Franchisor sales of food ingredients amounted to $1.6 billion in 1985, of which $777 million went to restaurants and $604 million to food retailers other than convenience stores.

FRANCHISE OUTLOOK. The following important trends in franchising are expected to continue for the next several years:

- The latest wrinkle, mostly in food-related franchising, is utilization of the combination franchise, or the joining of two or more concepts under one roof.
- New and small companies are

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FRANCHISING *from p. 182.*
starting to franchise in increasing numbers. In 1985, the net gain of companies converting to franchising jumped dramatically to almost eight percent, the highest percentage increase for the last five years. A total of 273 additional firms started franchising in 1985, an eight percent gain over 1984, to 2,090 from 1,942.

- Expansion through acquisition is on the upswing with the absorption of many recently formed franchisors by others within the same field. Growing numbers of franchisors are seeking multi-unit franchisees who have the financial muscle to bring additional vitality into the system.
- The diminishing number of younger people and the rapidly expanding "mature" population, along with an increase in the number of two-earner families continue to foster growth of the franchise service sector in such areas as maid services, home repair and remodeling, carpet cleaning, and other home-related services.
- Businesses in need of nuts and bolts services such as accounting, collection services, mail and package shipping services, business consulting, security, and personnel services, are fueling rapid growth in these areas.
- Franchises specializing in automotive repairs and service are expected to fill the gaps caused by the closing of about 106,000 gasoline service stations since 1972.
- Weight control centers, hair salons, temporary help services, printing and copying services, and medical centers are expected to rise in numbers through the remainder of the decade.

INTERNATIONAL MARKETS. U.S. franchisors are currently operating in most major countries or are engaged in serious negotiations for the purpose of entering foreign markets, an indication that foreign nations have welcomed the entry of U.S. franchisors and that local laws and regulations have not been overly restrictive.

Franchising operations in foreign markets, however, involve many of the same problems confronting other business ventures. Language difficulties, differences in customs, and sometimes unpredictable government decision-making are examples of impediments all U.S. franchisors encounter when attempting to take advantage of opportunities in other countries.

Compared to other service sectors, the problems of franchise companies in accomplishing international transactions are relatively less formidable. Franchisors must comply with the same local requirements as domestic businesses and the franchise agreements must comply with local contract law, anti-trust law, and trademark licensing laws.

We know of no real trade barriers that discriminate specifically against U.S. franchisors. There are no specific regulations restricting franchise operations and there are no prohibitive laws governing franchising that differ from those which affect other types of business operations. Of course, it is true that some restrictions affect franchising more than other businesses but that is because of the nature of franchising rather than a foreign government's opposition to franchising as a system of distribution.

FOOD-AWAY-FROM-HOME. The populations of many foreign countries are young and like to try new products and concepts. In addition, more and more women everywhere are going to work.

RESTAURANT FRANCHISING, 1985-1987
SALES ($000)

MAJOR ACTIVITY	Firms	1985 Total	1985 Company-Owned	1985 Franchisee-Owned
Chicken	30	$4,118,947	$1,691,050	$2,427,897
Hamburgers, Franks, Roast Beef, etc.	105	23,407,433	5,862,555	17,544,878
Pizza	102	6,193,899	2,410,905	3,782,994
Mexican (Taco, etc.)	36	2,400,009	1,312,760	1,087,249
Seafood	14	1,212,951	713,263	499,688
Pancakes, Waffles	13	1,101,858	331,594	770,264
Steak, Full Menu	117	8,562,410	4,811,355	3,751,055
Sandwich and Other	53	680,854	123,965	556,889
TOTAL	470	$47,678,361	$17,257,447	$30,420,914

* *Estimated by respondents.*

RESTAURANT FRANCHISING, 1985-1987
NUMBER OF UNITS

MAJOR ACTIVITY	Firms	1985 Total	1985 Company-Owned	1985 Franchisee-Owned
Chicken	30	8,720	3,241	5,479
Hamburgers, Franks, Roast Beef, etc.	105	30,563	6,666	23,897
Pizza	102	14,174	4,651	9,523
Mexican	36	4,125	1,865	2,260
Seafood	14	2,423	1,362	1,061
Pancakes, Waffles	13	1,761	542	1,219
Steak, Full Menu	117	9,466	4,766	4,700
Sandwich and Other	53	2,660	481	2,179
TOTAL	470	73,892	23,574	50,318

* *Estimated by respondents*

	1986*			1987*	
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
$4,488,168	$1,886,131	$2,602,037	$4,994,913	$2,082,946	$2,911,967
25,609,781	6,607,980	19,001,801	28,591,880	7,357,159	21,234,721
6,939,483	2,638,774	4,300,709	8,067,688	2,979,639	5,088,049
2,571,079	1,417,348	1,153,731	2,881,165	1,620,012	1,261,153
1,355,337	791,308	564,029	1,526,190	874,540	651,650
1,169,664	349,139	820,525	1,285,229	382,739	902,490
8,541,838	4,536,237	4,005,601	9,500,179	4,935,440	4,564,739
812,792	105,531	707,261	1,103,888	143,822	960,066
$51,488,142	$18,332,448	$33,155,694	$57,951,132	$20,376,297	$37,574,835

	1986*			1987*	
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
9,219	3,386	5,833	9,883	3,545	6,338
32,039	7,250	24,789	34,537	7,848	26,689
15,874	5,116	10,758	18,113	5,636	12,477
4,431	1,976	2,455	4,951	2,236	2,715
2,569	1,457	1,112	2,826	1,603	1,223
1,817	559	1,258	1,981	606	1,375
9,204	4,345	4,859	9,855	4,481	5,374
3,135	283	2,852	4,253	338	3,915
78,288	24,372	53,916	86,399	26,293	60,106

This not only increases the family's disposable income, which is good for franchisors in the service and consumer products business, but it also increases the demand for food purchased away from home.

OVERSEAS PRESENCE. Developed countries overseas are increasingly exhibiting the same characteristics which fostered the surge of service industries in the U.S., namely rising disposable personal income, increasing demand for consumer goods and services, expanding urbanization, and the increased mobility of the U.S. consumer.

The Department of Commerce survey reveals that 342 U.S. franchising companies operated 30,188 outlets in foreign countries in 1985; this compares with 328 franchisors with 27,021 outlets in 1984.

Another 192 companies have indicated that they are considering extending their U.S. operations to foreign countries by the end of 1988. This interest has been expressed mostly by small- and medium-sized franchisors, which market a variety of services and products. Of the companies seeking foreign markets, 44 are franchisors of business aids and services, and 39 are restaurant franchisors.

Methods of international franchising for the years 1971-1985 have taken several forms, with many companies utilizing more than one avenue to conduct foreign operations. Of the 342 franchisors doing business in foreign countries in 1985, 320 of them sold their outlets to franchisees, either directly or through a master licensee who received the right to develop the franchisor's system in a specific country or region.

Some 37 franchisors operated joint ventures, and 38 had several company-operated units. Thirty-two of them derived 10 percent or more of their income from foreign operations; 24 firms received between five and nine percent; 99 firms received between one and four percent; and 187 companies received less than one percent.

CANADA RANKS FIRST. Canada continues to be the dominant market for U.S. franchisors despite its declining share of U.S. foreign outlets. In 1985, 30 percent of all U.S. foreign franchised outlets were located in Canada, down from a high of 46 percent in 1971. A total of 239 U.S. franchising firms with 9,054 units operated in Canada in 1985, predominantly in restaurants (1,542), non-food retailing (1,599), and business aids and services (1,279).

JAPAN NUMBER TWO. Japan continues to be the second largest market for U.S. franchisors with a total of 7,124 units, of which 67 percent represents various food categories such as restaurants, donut shops, ice cream stores, and convenience food stores. The United Kingdom ranks third with 2,291 outlets, while 4,398 outlets are located in all of Continental Europe.

RESTAURANTS ABROAD. U.S. franchisors continued to increase their number of franchised operations overseas, with the number of franchised restaurant units rising to 6,122 in 1985 from 5,990 a year earlier. Canada accounted for the largest number of restaurants followed closely by Japan.

Restaurants with major activity in hamburgers, frankfurters, and roast beef accounted for the largest number of outlets, followed by chicken and pizza. Another 39 franchisors of restaurants plan to extend their operations to

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FRANCHISING *from p. 185.*
foreign countries by the end of 1988.

RESTAURANT SALES. Sales of franchised restaurants of all types reached over $51 billion in 1986, up eight percent over a year earlier; sales are expected to jump about 13 percent, to $58 billion in 1987. The total number of franchised restaurants was 73,892 in 1985, rose to 78,288 in 1986, and should rise to over 86,000 in 1987. The highest concentrations of franchised restaurants continue to be in California, Texas, Ohio, and Florida.

RESTAURANT TRENDS. Eating out is again on the increase, and a shift in consumer preference that could affect eating places is the trend toward eating "healthier" foods. Consumer awareness of health and nutrition is reflected in menu selections and ultimately in the cost of a meal. Sales of "lighter foods" such as salads, and the rising popularity of pasta and vegetables have increased, sometimes at the expense of meat entrees.

DELIVERY ALTERNATIVES. A wide variety of retailers are using home delivery to increase sales and satisfy spontaneous consumer demand. Fast-food sellers are also experimenting with mobile food vans that visit construction and similar sites on a regular basis and provide food at lunchtime to areas of high population density but with limited foodservice availability. Even gourmet restaurants are making specialty dishes available at home to customers with limited time to visit a restaurant or to prepare such specialties themselves.

Canada is the number one foreign market for U.S. franchise firms. Japan is still the number two choice.

EMPLOYMENT. Employment in the franchised restaurant sector was 2,441,947 in 1985, up from 2,182,143 a year earher, a rise of 12 percent. Employment in the franchised restaurant industry accounts for 39 percent of employment in the franchised system as a whole and should continue to rise in the next few years. Furthermore, franchised restaurant employees accounted for an estimated 43 percent of all persons employed in eating places in the United States.

During 1986, 14 franchisors with a total of 570 restaurants, 346 of which were franchisee-owned, went out of business, while 23 franchisors with a total of 952 restaurants, 199 of which were franchisee-owned, decided to abandon franchising as a method of marketing.

There were 13 big franchisors with over 1,000 units each in 1984. Combined, they represented 55 percent of all restaurants in the franchise system, or 40,296 restaurants, of which 27,413 were franchisee-owned and 12,883 were company-owned. They also represented 60 percent of total franchised restaurant sales, or $29 billion, of which $20 billion were by franchisee-owned units.

TEMPORARY BUYBACKS. In 1985, a larger number of restaurants were converted to franchisee-ownership than were those repurchased for company operation. Most of the buybacks were temporary with the intention of reselling them to prospective franchisees at a later date.

To compete with other restaurant chains, many franchise operators have become more customer-oriented and are offering such amenities as waiter and waitress service and/or drive-in and drive-thru service. Most restaurants offer one type or the other; and 20 franchisors offer both services.

RETAIL DOMINANT. Retailing dominates franchising, accounting for some 87 percent of all franchising receipts in 1986. The retail sales of all firms associated with franchising reached about $487 billion in 1986, or 33 percent of all U.S. retail sales which are estimated at $1.5 trillion.

Franchise retail sales continue to remain strong as a result of moderate inflation and steady economic growth.

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INTERNATIONAL RESTAURANT FRANCHISING IN 1985 — LOCATION AND NUMBER OF UNITS*

	U.S. Firms	Total	Canada	United Kingdom	Other Europe	Japan	Other Asia	Australia	New Zealand	Africa	Caribbean	Mexico	Central America	South America
Chicken	8	1,878	11	371	62	540	187	247	45	183	144	65	10	13
Hamburgers, Franks and Roast Beef	13	3,251	1,146	236	462	754	212	223	21	2	98	4	41	52
Pizza	14	578	127	6	15	74	78	147	26	10	43	31	20	1
Mexican	6	109	83	0	0	0	1	2	0	0	22	0	0	1
Seafood	3	13	6	0	0	0	7	0	0	0	0	0	0	0
Pancakes, Waffles	2	15	3	0	0	12	0	0	0	0	0	0	0	0
Steak, Full Menu	13	271	161	2	0	56	13	16	0	0	4	19	0	0
Sandwich, Other	2	7	5	0	0	0	1	0	0	0	1	0	0	0
Total	61	6,122	1,542	615	539	1,436	499	635	92	195	312	119	71	67

** Includes company-owned, franchisee-owned and joint ventures.*

A wide variety of retailers are utilizing home delivery to increase sales and satisfy consumer demand.

FRANCHISING *from p. 186.*
Increased application of existing technology to retailing is continuing, but with no new breakthroughs. Categories that showed stronger than average growth include building materials and hardware, apparel and accessories, furniture and home furnishings, and related items. Continued low interest rates and low energy and gasoline prices should contribute to increased retail sales.

CONVENIENCE STORES. Convenience food stores are an important factor in food retailing. Because of changing demographics and lifestyles, they have expanded rapidly, evolving into a large and sophisticated segment of food retailing. Many resemble scaled-down, modern supermarkets and offer on-premises foodservice facilities and self-service gasoline.

Currently, foodservice, or restaurant style foods and beverages prepared in the store for consumption elsewhere, are becoming more important. Almost all convenience stores offer some type of foodservice, at least hot beverages and fresh pastries. Many stores offer a wide variety of foodservice items: cold sandwiches, hot sandwiches, pizza, and fried chicken. Many stores have installed bulk soft drink (post-mix—dispensing apparatus because of higher profit margins compared with bottled beverages.

Despite intensified competition from supermarkets offering extended hours and Sunday shopping, convenience store sales moved up eight percent to $111.7 billion in 1986. The number of franchised stores in 1986 was reported to be 15,698, up 3.7 percent. Further gains are expected in 1987, nine percent in sales and 5.6 percent in stores.

FOOD RETAILING. The retailing of food by specialty food shops, ice cream stores, coffee services, donut shops, bakeries, cookie shops, candy stores, nut stores, and others, amounted to $10.8 billion in 1986, seven percent over the previous year; sales in 1987 are expected to reach $11.6 billion. In 1987, the number of units is expected to rise to 23,537, a jump of 13 percent over the prior year. Two groups in this category are donut shops and ice cream and yogurt stores.

GROWTH IN LEISURE. Americans are increasing their weekend and vacation travel, which, although affected periodically by changes in the economy, has grown steadily in recent years. Factors that have fostered this growth include expanded leisure time, rising disposable personal income, lower gasoline prices, and the mounting number of single-member households. With sales estimated at $18.4 billion in 1986, franchisors expect an eight percent increase in 1987, to an estimated $19.9 billion. The number of establishments is also expected to increase from 16,324 in 1986 to 17,522 in 1987.

HOTEL/MOTEL SECTOR. Occupancy rates in the lodging industry have been about 64 percent in 1986 and little change in average occupancy rates of hotels and motels is expected in 1987.

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U.S. FRANCHISED RESTAURANTS SUMMARY

Item	1985	1986*	1987*	Percent Changes 1985-86	Percent Changes 1986-87
Company-owned	23,574	24,372	26,293	3.0	8.0
Franchisee-owned	50,318	53,916	60,106	7.0	11.0
Total number of units	73,892	78,288	86,399	6.0	10.0
Company-owned	$17,257,447	$18,332,448	$20,376,297	6.0	11.0
Franchisee-owned	$30,420,914	$33,155,694	$37,574,835	9.0	13.0
Total sales of products and services ($000)	$47,678,361	$51,488,142	$57,951,132	8.0	13.0
[illegible]	$178,959	$154,297	$168,364	[illegible]	[illegible]
[illegible]	$200,781	$237,676	$261,354	[illegible]	[illegible]
[illegible]	$776,866	$940,539	$1,091,975	[illegible]	[illegible]
[illegible]	$62,491	$64,631	$74,153	[illegible]	[illegible]
Total sales of products and services by franchisors to franchisees: ($000)	$1,219,097	$1,397,643	$1,595,648	15.0	14.0

* *Estimated by respondents.*

FRANCHISING *from p. 188.*
The lodging industry has experienced tremendous growth in the last several years. Many of the larger hotel companies are launching new chains and new product lines in an effort to attract specific types of travelers. In addition, price competition has increased, as have marketing efforts to stimulate brand loyalty.

The trend toward diversification in property types offered by hotel chains is expected to continue, although at a somewhat slower pace. More Americans are expected to vacation in the U. S. rather than abroad while the number of international visitors to the U. S. should increase.

Many larger hotel companies are launching new chains in order to attract business travelers.

Hotel, motel, and campground franchisors in 1986 represented 8,033 establishments, with receipts estimated at $15.7 billion. Receipts are expected to rise seven percent in 1987 over 1986, reaching $16.7 billion. Total receipts for the lodging industry are estimated at $43.9 billion in 1986 of which 36 percent is accounted for by hotels and motels in the franchise system.

MORE VACATIONERS. While the basic 40-hour work week has remained unchanged since the early 1950s, the advent of the four-day work week and the introduction of flextime has helped considerably in creating more leisure time. The average worker is also enjoying longer vacations and more holidays. The number of Americans expected to take a vacation trip will grow in 1987 as these trips get longer in both distance and duration.

Franchising firms engaged in the recreation, entertainment, and travel business, report estimated sales of

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U.S. FRANCHISED RESTAURANTS* NUMBER OF ESTABLISHMENTS BY STATE: 1985

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	1,156	289	867	Nebraska	577	171	406
Alaska	104	5	99	Nevada	328	133	195
Arizona	1,241	425	816	New Hampshire	138	26	112
Arkansas	1,228	575	653	New Jersey	1,203	313	890
California	7,552	2,162	5,390	New Mexico	535	88	447
Colorado	1,248	380	868	New York	2,148	454	1,694
Connecticut	611	150	461	North Carolina	1,744	418	1,326
Delaware	152	58	94	North Dakota	200	13	187
District of Columbia	147	78	69	Ohio	3,850	1,320	2,530
Florida	3,853	1,494	2,359	Oklahoma	1,310	501	809
Georgia	2,347	999	1,348	Oregon	938	231	707
Hawaii	243	105	138	Pennsylvania	2,293	794	1,499
Idaho	231	17	214	Rhode Island	198	102	96
Illinois	3,159	1,075	2,084	South Carolina	1,144	326	818
Indiana	2,188	640	1,548	South Dakota	218	28	190
Iowa	1,096	196	900	Tennessee	1,606	579	1,027
Kansas	891	270	621	Texas	6,353	2,484	3,869
Kentucky	1,428	362	1,066	Utah	424	79	345
Louisiana	1,220	421	799	Vermont	59	4	55
Maine	165	34	131	Virginia	1,684	543	1,141
Maryland	979	381	598	Washington	1,367	370	997
Massachusetts	793	251	542	West Virginia	497	165	332
Michigan	2,816	939	1,877	Wisconsin	1,388	389	999
Minnesota	1,362	386	976	Wyoming	181	20	161
Mississippi	717	109	608				
Missouri	1,786	622	1,164	TOTAL	69,336	21,978	47,358
Montana	240	4	236				

*Represents 89 percent of total establishments.
The remaining 11 percent were unable to provide a geographic breakdown for this report.

FRANCHISING *from p. 190*

$2.7 billion in 1986. In 1987, they are expected to climb to $3.2 billion.

SMALL FRANCHISEES. Small investors, especially minority entrepreneurs, often face two major obstacles in their efforts to operate a successful company: inexperience in business and management, and inadequate financing. The franchising system provides a means for mitigating such barriers.

Under the franchise system, a franchisor usually provides managerial training and assistance on a continuing basis to franchisees and, in many cases, finances the purchase of necessary equipment.

The franchisor may also arrange for property leases, help obtain loans from the Small Business Administration, local banks, or other private investors, and, in some instances, may participate in the venture. In addition, franchisors generally provide such services as location analysis, advertising and merchandising, counseling and assistance, standardized procedures and operations, and, sometimes, centralized purchasing systems.

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RESTAURANT FRANCHISING GROWTH IN SALES 1981-1986 (SALES:$000)

Major Activity	Total Sales			Company-owned			Franchisee-owned		
	$ 1981	$ 1986*	% Change	$ 1981	$ 1986*	% Change	$ 1981	$ 1986*	% Change
Chicken	2,833,007	4,488,168	58	951,719	1,886,131	98	1,881,288	2,602,037	38
Hamburgers, Franks	14,327,705	25,609,781	79	4,045,912	6,607,980	63	10,281,793	19,001,801	85
Roast Beef etc	3,169,601	6,939,483	119	1,168,509	2,638,774	126	2,001,092	4,300,709	115
Pizza	1,069,712	2,571,079	140	490,134	1,417,348	189	579,578	1,153,731	99
Mexican	888,491	1,355,337	53	479,506	791,308	65	408,985	564,029	38
Seafood	847,650	1,169,664	38	275,201	349,139	27	572,449	820,525	43
Pancakes, Waffles	6,566,702	8,541,838	30	3,311,457	4,536,237	37	3,255,245	4,005,601	23
Steak, Full Menu	339,480	812,792	139	60,768	105,531	74	278,712	707,261	154
Sandwich and Other									
Total	**30,042,348**	**51,488,142**	**71**	**10,783,206**	**18,332,448**	**70**	**19,259,142**	**33,155,694**	**72**

* *Estimated by respondents.*

RESTAURANT FRANCHISING GROWTH IN UNITS, 1981 - 1986

Major Activity	Total Units			Company-Owned			Franchisee-Owned		
	1981	1986*	% Change	1981	1986*	% Change	1981	1986*	% Change
Chicken	7,388	9,219	25	2,249	3,386	51	5,139	5,833	14
Hamburgers, Franks	26,945	32,039	19	5,926	7,250	22	21,019	24,789	18
Roast Beef	9,695	15,874	64	3,540	5,116	45	6,155	10,758	75
Pizza	3,002	4,431	48	1,320	1,976	50	1,682	2,455	46
Mexican	2,226	2,569	15	1,151	1,457	27	1,075	1,112	3
Seafood	1,500	1,817	21	527	559	6	973	1,258	29
Pancakes, Waffles	9,406	9,204	(2)	4,297	4,345	1	5,109	4,859	(5)
Steak, Full Menu	1,684	3,135	86	345	283	(18)	1,339	2,852	113
Sandwich and Other									
Total	**61,846**	**78,288**	**27**	**19,355**	**24,372**	**26**	**42,491**	**53,916**	**27**

* *Estimated by respondents.*

Franchising has seen an increase in conversions of company-owned outlets into franchisee-owned operations.

FRANCHISING *from p. 195.*

Changes in ownership in 1985 involved 12,016 units belonging to 932 franchisors. These changes included conversions to franchisee-owned or to company-owned, and discontinuation of either company-owned or franchisee-owned outlets. Units discontinued may include businesses that failed, but the number of failures is unknown. However, the number of units discontinued, for whatever reason, is relatively low, 3.7 percent in 1985 for franchisee-owned units.

Specifically, 640 outlets were repurchased from company-ownership, while 1,407 were converted to franchisee-ownership. As in previous years, the largest portion of these changes occurred in the restaurant sector of franchising. The number of establishments discontinued in 1985 stood at 9,969 of which 1,250 were company-owned and 8,719 franchisee-owned.

Since 1975, the trend in franchising has reflected an increase in conversions of company-owned units to franchisee-ownership, and as in previous years the survey shows that most units repurchased for company-ownership were temporary buybacks for a multitude of reasons, the least of which was the company's desire to withdraw from the franchise system or to operate these units permanently itself. The trends for conversions covering the 1971-1985 period are as follows:

FAILURES. A total of 78 franchisors operating 5,667 outlets and representing $574 million, failed during 1986, a record number. The franchisee-owned portion of 1985 sales of the failed firms was $501 million. Compared to total business format franchising sales of $141 billion in 1985, the lost volume (0.4 percent) is insignificant.

In addition, 105 franchisors, also a record, decided in 1986 to discontinue franchising as a method of doing business; these companies operated 5,082 units in 1985 with $2.3 billion in sales, of which 3,670 outlets with $1.4 billion in sales were franchisee-owned.

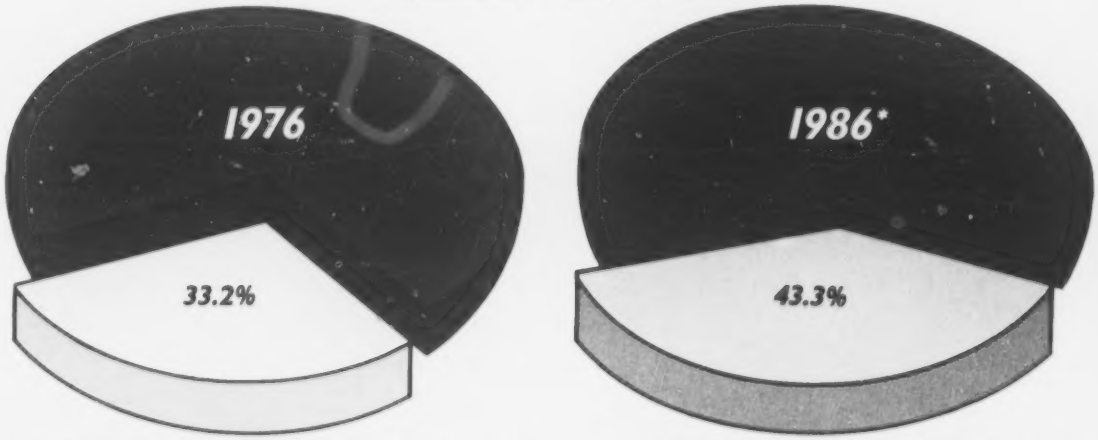
The survey revealed that in 1985, 71 percent of the currently operating business format franchising companies, covering 19 broad categories, issued franchise agreements, many of which, especially in retailing, were associated with a lease.

RENEWALS. In 1985, 12,543 franchise arrangements came up for renewal, of which 11,369, or 91 percent, were renewed and 1,174 were not. Of the latter, 350 were not renewed because of objections by the franchisor, 402 were not because the franchisee did not wish to renew, and 422 were not renewed by mutual agreement. There were 7,450 terminations of franchise agreements in 1985, of which 2,651 were terminated by franchisors: 1,376 for nonpayment of royalties or other financial obligations, 258 for the franchisee's failure to comply with quality control standards, and 1,017 for other reasons not identified. Franchisees were responsible for terminating 4,348 franchise agreements, while an additional 451 were terminated by mutual consent.

continued on page 200

FRANCHISED RESTAURANT CHAINS

Increased Share of Eating Place Sales



■ 1976 Franchised Restaurant Sales: $14.6 billion
1976 Separate Eating Place Sales: $44.1 billion

■ 1986 Franchised Restaurant Sales: $ 51.5 billion
1986 Separate Eating Place Sales: $119.0 billion

* Projected Source: Restaurant Business Restaurant Growth Index and U. S. Department of Commerce.

FRANCHISING REPORT

FRANCHISING *from p. 196.*

TOP 30 FRANCHISE RESTAURANT SYSTEMS
1985-86 Systemwide Sales by Company and Franchise ($000,000's)

Franchise System	1986			1985			'85-'86
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned	% Total Change
McDonald's	$12,432	3,106	9,326	$11,001	2,770	8,231	13
Burger King*	$4,500	765**	3,735**	$3,990	599**	3,392**	13
Kentucky Fried Chicken	$3,500	1015**	2,485**	$3,100	1,000	2,100**	13
Wendy's	$2,747	1,037	1,710**	$2,695	1 032	1,663**	2
Hardee's	$2,700	1,181	1,519**	$2,300	1,066	1,234**	17
Pizza Hut	$2,600	1,326**	1,274**	$2,100	1,050**	1,050**	24
Dairy Queen*	$1,723	18**	1,705**	$1,572	2	1,570	10
Domino's Pizza	$1,500**	424**	1,076**	$1,084**	287**	797**	38
Taco Bell	$1,350	716**	634**	$1,140**	582**	558**	18
Big Boy Restaurant	$955**	196**	759**	$892**	182**	710**	7
Arby's Roast Beef Restaurant	$900	99**	801**	$814	99**	715**	11
Long John Silver's Seafood Shoppe*	$697	425**	272**	$637	390	247	9
Dunkin' Donuts*	$648	19**	629**	$577	33	544	12
Shoney's*	$640	300	340**	$576	268	308**	11
Jack in the Box*	$587	464**	123**	$612**	539**	73**	(4)
Ponderosa Steakhouse*	$582**	408	174**	$629**	448	181**	(7)
Church's Fried Chicken	$578	465	113	$640	540	100	(10)
Baskin-Robbins Inc.	$575**	168**	407	$545**	27**	518**	6
Roy Rogers	$527**	350**	177**	$507**	348**	159**	4
Sizzler*	$505	170	335	$443	147	296	14
Little Caesar's Pizza Parlor	$500	125	375	$300	78**	222**	67
Bonanza Family Restaurant*	$458	4**	454**	$421	3	418	9
Western Sizzlin'*	$445	2	443	$427	4	423	4
Popeye's Famous Fried Chicken	$409**	70**	339**	$355	60**	295**	15
Chi-Chi's*	$390	257**	133**	$400	242**	158**	(3)
Rax Restaurant*	$375	113	262	$280	105	175	34
Captain D's*	$317	182	135**	$270	154	116**	17
Perkins Restaurant	$314**	104**	211**	$274	94	180	15
Sonic Drive-In*	$291	18**	273**	$292	22	270	N/C
Pizza Inn	$279**	105**	174**	$265	105	160	5

1985-86 Systemwide Units by Company and Franchise

Franchise System	1986			1985			'85-'86
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned	% Change
McDonald's	9,410	2,301	7,109	8,901	2,225	6,676	6
Burger King*	4,975	829	4,146	4,225	635	3,590	18
Kentucky Fried Chicken	6,575	1,922	4,653	6,396	1,826	4,570	3
Wendy's	3,727	1,335	2,392	3,442	1,257	2,185	8
Hardee's	2,733	899	1,834	2,554	880	1,674	7
Pizza Hut	5,070	2,572	2,498	4,912	2,224	2,688	3
Dairy Queen*	4,931	6	4,925	4,822	6	4,816	2
Domino's Pizza	3,503	992	2,511	2,755	826	1,929	27
Taco Bell	2,171	1,160	1,011	2,173	1,160	1,013	(1)
Big Boy Restaurant	924	189	735	883	173	710	5
Arby's Roast Beef Restaurant	1,685	191	1,494	1,545	184	1,361	9
Long John Silver's Seafood Shoppe*	1,388	844	544	1,359	825	534	2
Dunkin' Donuts*	1,439	44	1,395	1,447	78	1,369	(1)
Shoney's*	542	236	306	488	216	272	11
Jack in the Box*	849	670	179	822	709	113	3
Ponderosa Steakhouse*	615	432	183	621	433	188	(1)
Church's Fried Chicken	1,532	1,135	397	1,549	1,271	278	(1)
Baskin-Robbins Inc.	3,311	184	3,127	3,185	158	3,027	4
Roy Rogers	553	345	208	540	355	185	2
Sizzler*	488	153	335	465	138	327	5
Little Caesar's Pizza Parlor	1303	319	984	890	220	670	46
Bonanza Family Restaurant*	571	3	568	542	3	539	5
Western Sizzlin'*	565	3	562	495	5	490	14
Popeye's Famous Fried Chicken	658	112	546	555	90	465	19
Chi-Chi's*	200	132	68	200	121	79	N/C
Rax Restaurant*	520	160	360	443	164	279	17
Captain D's*	537	305	232	490	275	215	10
Perkins Restaurant	328	110	218	319	98	221	3
Sonic Drive-In*	958	57	901	970	85	885	(1)
Pizza Inn	734	255	479	727	255	432	1

** Fiscal year-end results (remainder are calendar year-end results) includes international operations.* *** Estimated by Restaurant Business or by the respective company.*

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A BILL PUBLICATION APRIL-10, 1987

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WILL IT SET A NEW COURSE FOR URBAN RESTAURANTS?

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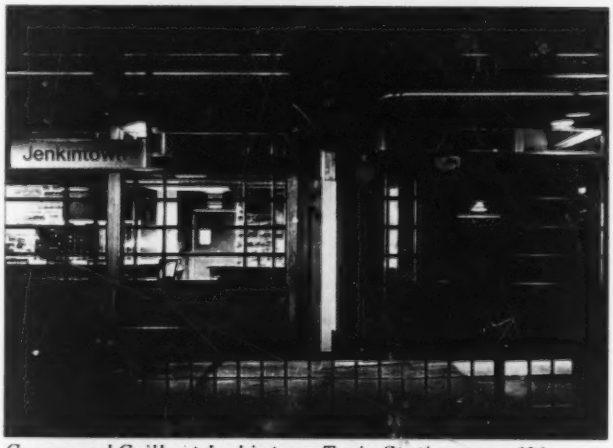

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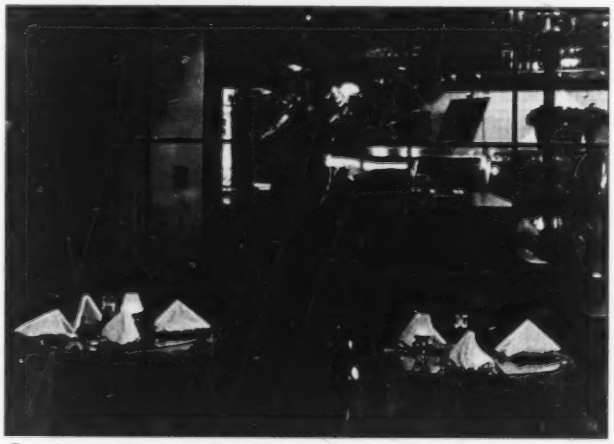

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